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FOR
MEETING OF THE BOARD

August 19-20, 2009
Austin, Texas

<u>Wednesday, August 19, 2009</u>

Thursday, August 20, 2009		**Board/Committee Meetings**	**Page**
F.	COMMITTEE MEETINGS Health Affairs Committee -- Special Meeting	*8:00 a.m.*	
	Student, Faculty, and Staff Campus Life Committee	*9:30 a.m.*	
G.	RECONVENE THE BOARD IN OPEN SESSION	*10:30 a.m.*	
H.	APPROVAL OF MINUTES		
I.	CONSIDER AGENDA ITEMS		
	4. U. T. System: Chancellor's quarterly update - Strategic Vision for the U. T. System	*10:35 a.m.* **Report** *Chancellor Cigarroa*	**2**
	5. U. T. System: Approval of the nonpersonnel aspects of the operating budgets for Fiscal Year 2010, including the Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects and an allocation for the Science and Technology Acquisition and Retention Program	*11:05 a.m.* **Action** *Chancellor Cigarroa*	**2**
	6. U. T. System: Discussion and appropriate action regarding personnel aspects of the U. T. System Administration operating budget for Fiscal Year 2010	*11:20 a.m.* **Action** *Vice Chairman Foster* *Regent Hicks*	**5**
	7. U. T. System Board of Regents: Amendment to the Regents' *Rules and Regulations*, Rule 10402, Section 1, regarding a quorum of Standing Committees	*11:25 a.m.* **Action** *Ms. Frederick*	**5**
	8. U. T. System Board of Regents: Amend Regents' *Rules and Regulations*, Rule 10501, Section 4 (Contracts Not Requiring Board Approval), Subsection 4.12, regarding athletic employment agreements	*11:27 a.m.* **Action** *Ms. Frederick*	**6**
	9. U. T. System: Authorization to enter into contracts or transactions with Apple Computer, Inc., FedEx Corporation, and each of their respective subsidiaries and operating companies	*11:29 a.m.* **Action** *Mr. Burgdorf*	**7**
	10. U. T. System: Delegation of authority to facilitate the acceptance of gifts for matching under the Texas Research Incentive Program	*11:35 a.m.* **Action** *Dr. Safady*	**8**
J.	RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND COMMITTEE REPORTS TO THE BOARD	*11:40 a.m.*	
K.	RECONVENE AS A COMMITTEE OF THE WHOLE TO ADJOURN	*12:00 p.m.*	

1. <u>U. T. System Board of Regents: Announcement of recipients for the Regents' Outstanding Teaching Awards and remarks by representative faculty</u>

REPORT

The Board of Regents of The University of Texas System places the highest priority on undergraduate teaching at U. T. System universities and encourages teaching excellence by recognizing those faculty who deliver the highest quality of undergraduate instruction, demonstrate their commitment to teaching, and have a history and promising future of sustained excellence with undergraduate teaching in the classroom, in the laboratory, in the field, or online.

On August 14, 2008, the Regents established the Regents' Outstanding Teaching Awards, which are a symbol of the importance the Board places on the provision of teaching and learning of the highest order, in recognition of those who serve students in an exemplary manner, and as an incentive for others who aspire to such service. These teaching awards complement existing ways in which faculty excellence is recognized and incentivized. The Board allocated $2 million per annum for five years, beginning FY 2009, for teaching awards, allocating $1 million per year for the awards for U. T. Austin and another $1 million per year for the remaining academic institutions. Program details for the awards were approved by the Board of Regents on November 13, 2008, and involve one-time payments to individual faculty ranging from 20 awards of $30,000 each for tenured faculty, nine awards of $25,000 each for tenure-track faculty upon receiving tenure, and nine awards of $15,000 each for contingent faculty (including adjuncts, lecturers, and instructional assistants).

At the meeting, Chancellor Cigarroa will announce the first group of recipients for the Regents' Outstanding Teaching Awards. The faculty members participating in the meeting are Mr. Robert Prentice from U. T. Austin, Dr. Kimberly Selber from U. T. Pan American, and Mr. Steven Varela from U. T. El Paso.

2. <u>U. T. System Board of Regents: Possible discussion and appropriate action regarding Santa Rita Award</u>

RECOMMENDATION

Chairman Huffines may make a recommendation for award of the Santa Rita Award, the highest honor bestowed by the Board of Regents.

Supplemental Materials: Regents' *Rules and Regulations*, Rule 10601 on Pages 1 – 2 of Volume 2.

BACKGROUND INFORMATION

The criteria for selection of the Santa Rita Award include such factors as:

- A demonstrated concern for the principles of higher education
- A deep commitment to the furtherance of the purposes and objectives of The University of Texas System
- A record of commitment to securing appropriate support for the U. T. System from both the public and private sectors
- A demonstrated record of participation in the affairs of the U. T. System, which serves as a high example of selfless and public-spirited service.

3. U. T. System Board of Regents: Appointment of a Special Board Committee on the Brackenridge Tract to review the conceptual master plans

RECOMMENDATION

Chairman Huffines will appoint Board members of the U. T. System Board of Regents to a Special Committee on the Brackenridge Tract to review the two conceptual master plans presented by Cooper, Robertson & Partners, L. L. P., on June 18, 2009.

4. U. T. System: Chancellor's quarterly update - Strategic Vision for the U. T. System

REPORT

Chancellor Cigarroa will present his vision for the future of the U. T. System, including an outline of priority strategic objectives.

5. U. T. System: Approval of the nonpersonnel aspects of the operating budgets for Fiscal Year 2010, including the Permanent University Fund Bond Proceeds allocation for Library, Equipment, Repair and Rehabilitation Projects and an allocation for the Science and Technology Acquisition and Retention Program

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the U. T. System institutions, recommends that the nonpersonnel aspects of the U. T. System Operating Budgets for Fiscal Year 2010, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical, Dental, and Allied Health Faculty Services, Research and Development Plans, be approved.

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

Chancellor Cigarroa will make a presentation on the recommended Fiscal Year 2010 Operating Budget including the Library, Equipment, Repair and Rehabilitation (LERR) Budget and the allocation of the Science and Technology Acquisition and Retention (STARs) program.

It is requested that Permanent University Fund (PUF) Bond Proceeds in the amount of $50,000,000 be appropriated to the institutions to fund LERR Projects for Fiscal Year 2010. Of the $50,000,000, it is requested that $20,000,000 be appropriated directly to U. T. System institutions. This would authorize the purchase of 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 or repair and rehabilitation projects are to receive prior approval by the Chancellor, the appropriate Executive Vice Chancellor, and, where required, the U. T. System Board of Regents. Transfers by 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 U. T. System Board of Regents. Subject to completion of a project planning form, repair and rehabilitation projects are automatically added to the Capital Improvement Program (CIP) provided that total project cost and funding sources have not changed from the original LERR request.

It is also requested that $30,000,000 of the PUF Bond Proceeds be appropriated to provide additional funding to build and enhance research infrastructure to attract and retain the best qualified faculty known as the Faculty STARs program. Through a competitive proposal process determined by U. T. System Administration, funds will be distributed for the purpose of recruiting top researchers.

It is recommended that LERR appropriations not expended or obligated by contract or purchase order within six months after the close of Fiscal Year 2010 and Faculty STARs program appropriations not expended or obligated by contract or purchase order within 18 months after the date of the award are to be available for future U. T. Systemwide reallocation unless specific authorization to continue obligating the funds is given by the Associate Vice Chancellor - Controller and Chief Budget Officer upon recommendation of the president of the institution and the appropriate Executive Vice Chancellor. Such specific authorization will extend the obligation of funds for no more than 12 additional months from the time the extension is granted.

It also requested that Available University Funds (AUF) be authorized in the amount of $11,132,554 for one-time funding of the following:

a. $6,132,554 to pay U. T. Systemwide Microsoft license renewals currently in the 12th year of an agreement with Microsoft Corporation to provide all U. T. System institutions, faculty, staff, and students with the most commonly used Microsoft products, and

b. $5,000,000 for faculty recruitment at U. T. Austin aimed at hiring top faculty talent.

It is further recommended that savings achieved at each institution by not having to pay 12th year Microsoft license renewal costs and the $5 million in AUF appropriated to U. T. Austin, be used to match Faculty STARs program awards for recruitment of top faculty talent. U. T. Brownsville and U. T. Pan American will consult with the Executive Vice Chancellor for Academic Affairs before committing the savings on new faculty recruitments since neither receives STARs funding. If any of the $5 million in AUF funding appropriated to U. T. Austin remains after February 2012, the remaining balance will be returned to U. T. System Administration.

Supplemental Materials:

- **Operating Budget PowerPoint presentation on Pages 3 - 20 of Volume 2.**
- **Available University Fund forecast on Page 21 of Volume 2.**

BACKGROUND INFORMATION

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

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

The appropriation of PUF Bond Proceeds will be presented in the Fiscal Year 2010 LERR Budget. The allocation of these LERR funds to the U. T. System institutions was developed from prioritized lists of projects submitted by the institutions and reviewed by U. T. System Administration staff.

As required by the AUF Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation has been prepared and is provided. The additional appropriation of PUF Bond Proceeds for this allocation is within the policy as shown in the forecast.

6. U. T. System: Discussion and appropriate action regarding personnel aspects of the U. T. System Administration operating budget for Fiscal Year 2010

RECOMMENDATION

Vice Chairman Foster and Regent Hicks will report on their review of the individual personnel aspects of the U. T. System Administration operating budget for Fiscal Year 2010.

BACKGROUND INFORMATION

On April 13, 2009, Chairman Huffines appointed Vice Chairman Foster and Regent Hicks to act as liaisons to Chancellor Cigarroa as he reviews and addresses issues related to the proposed University of Texas System budget for Fiscal Year 2010 to see if the budget is appropriately right-sized in light of the current economic environment. Chairman Huffines had asked for a report at the August 2009 Board meeting.

7. U. T. System Board of Regents: Amendment to the Regents' *Rules and Regulations*, Rule 10402, Section 1, regarding a quorum of Standing Committees

RECOMMENDATION

The Chancellor concurs in the recommendation of the General Counsel to the Board and the Vice Chancellor and General Counsel that the Regents' *Rules and Regulations*, Rule 10402, regarding Standing Committees of the Board, be amended to add language regarding a quorum as set forth below in congressional style:

Sec. 1 Standing Committees. The following committees shall be standing committees of the Board of Regents to consider policies for the government of all major areas: (a) Finance and Planning Committee; (b) Academic Affairs Committee; (c) Health Affairs Committee; (d) Facilities Planning and Construction Committee; (e) Audit, Compliance, and Management Review Committee.

1.1 Composition <u>and Quorum</u> of Standing Committees. Each standing committee is composed of not less than four members of the Board of Regents appointed by the Chairman. <u>In the unanticipated absence of a quorum, the Chairman or Committee Chairman may appoint another member(s) of the Board to serve in a temporary capacity on the Committee.</u>

. . . .

BACKGROUND INFORMATION

This proposed amendment to the Regents' *Rules* will permit the Chairman of the Board or the Standing Committee Chairman to appoint Regents to serve temporarily on a Committee in the event of an unanticipated absence.

8. U. T. System Board of Regents: Amend Regents' *Rules and Regulations*, Rule 10501, Section 4 (Contracts Not Requiring Board Approval), Subsection 4.12, regarding athletic employment agreements

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel that Regents' *Rules and Regulations*, Rule 10501, Section 4 (Contracts Not Requiring Board Approval), Subsection 4.12, regarding athletic employment agreements, be amended as set forth below in congressional style:

Sec. 4 Contracts Not Requiring Board Approval. The following contracts or agreements, including purchase orders and vouchers, do not require prior approval by the Board of Regents regardless of the contract amount.

. . .

4.12 Athletic Employment Agreements. Contracts with athletic coaches and ~~except~~ athletic directors ~~and head coaches~~ except those with total annual compensation of $250,000 or greater, as covered by Rule 20204.

. . . .

BACKGROUND INFORMATION

Currently, all contracts and contract amendments for athletic directors and head coaches at all U. T. System institutions require advance approval by the U. T. System Board of Regents.

This proposed amendment to the Regents' *Rules* would amend the portion of the delegation rules to delegate approval of head coach and athletic director contracts for employees with total annual compensation of less than $250,000.

The budget rules will be amended accordingly to clarify that only employment contracts for coaches and athletic directors with total annual compensation of $250,000 or greater will require Board approval.

9. <u>U. T. System: Authorization to enter into contracts or transactions with Apple Computer, Inc., FedEx Corporation, and each of their respective subsidiaries and operating companies</u>

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor and General Counsel that authorization be granted by the U. T. System Board of Regents for those individuals with contract execution authority under Regents' *Rules and Regulations*, Rule 10501 to enter into contracts, leases, licenses, and other transactions with Apple Computer, Inc., FedEx Corporation, and each of their respective subsidiaries and operating companies, on behalf of U. T. System Administration and U. T. System institutions, so long as those transactions comply with applicable procurement and conflict of interest laws, regulations, policies, and procedures.

BACKGROUND INFORMATION

Under Section 51.923 of the *Texas Education Code*, U. T. System Administration and U. T. System institutions may enter into contracts or transactions with a for-profit corporation in which a Regent owns 5% or less of the corporation's outstanding capital stock. However, in such cases, the law requires the contract or transaction to be an affiliation, licensing, or sponsored research agreement or to be awarded by competitive bidding or competitive sealed proposals. In addition, the Regent must (i) disclose such an interest in a meeting held in compliance with the Texas Open Meetings Act, and (ii) refrain from voting on any contract or transaction with that corporation.

U. T. System's practice has been to place each individual contract or transaction covered by Section 51.923 on the Board agenda for approval by Board vote, with any conflicted Regent abstaining.

However, the list of for-profit corporations currently impacted by Section 51.923 includes certain corporations (as well as their subsidiaries or operating companies) from which U. T. System and U. T. System institutions routinely and frequently purchase, license, or lease products and services. Two of those corporations, in which the interests are substantially below the 5% threshold held by Regents Gary and Longoria, are:

- <u>Apple Computer, Inc.</u>: Over 40% of U. T. Austin's computer purchases are from Apple; moreover, Apple computers are predominantly used in research activities at U. T. System institutions. Institutions frequently license various Apple software and development products. (Regent Longoria owns stock.)

- <u>FedEx Corporation</u>: U. T. System Administration and U. T. System institutions frequently use this vendor or its operating companies for shipments. (Regent Gary owns stock.)

Placing each individual U. T. contract or transaction with Apple Computer, Inc., FedEx Corporation, or their respective subsidiaries and operating companies on the Board agenda for advance approval by individual Board vote would significantly impact operations of U. T. System Administration, U. T. System institutions, and the Board of Regents because of the limited number of Board meetings at which such approvals may be obtained and the significant lead time necessary to prepare and process such approvals.

Advance authorization for U. T. System Administration and U. T. System institutions to enter into contracts or other transactions with Apple Computer, Inc., FedEx Corporation, and their respective subsidiaries and operating companies that are procured in accordance with procurement and conflict of interest laws, regulations, policies, and procedures and that are executed by persons with appropriately delegated authority under Regents' Rule 10501 is the most efficient way for routine business to proceed while still complying with the requirements of *Texas Education Code* Section 51.923.

10. U. T. System: Delegation of authority to facilitate the acceptance of gifts for matching under the Texas Research Incentive Program

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs that the U. T. System Board of Regents authorize Vice Chancellor Safady to act on behalf of the Board to facilitate the acceptance of gifts by U. T. System institutions that are intended to qualify for matching under the Texas Research Incentive Program, as appropriate, and to work closely with U. T. System institutions to ensure compliance with requirements of the Texas Higher Education Coordinating Board related to this Program.

BACKGROUND INFORMATION

The Texas Legislature, 81st Regular Session, authorized the Texas Research Incentive Program to provide state matching funds for research-oriented philanthropy at the seven emerging research institutions of Texas, as identified under the Coordinating Board's accountability system. Among those seven are U. T. Arlington, U. T. Dallas, U. T. El Paso, and U. T. San Antonio.

To qualify for the first $25 million of appropriated matching funds this year, gifts must meet certain criteria related to enhancing research activities, and they must be deposited and certified on or after September 1, 2009. Delegation of the authority to accept gifts in substantial compliance with all Board and U. T. System policies and procedures will assure maximum flexibility and responsiveness appropriate to enable the four U. T. System institutions to qualify for matching funds on a timely basis.

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FOR
AUDIT, COMPLIANCE, AND MANAGEMENT REVIEW COMMITTEE

Committee Meeting: 8/19/2009
Austin, Texas

R. Steven Hicks, Chairman
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Janiece Longoria
Robert L. Stillwell

		Committee Meeting	Page
6.	**U. T. System: Report on efforts to update and enhance research conflicts of interest policies, procedures, and enforcement at U. T. System institutions**	*9:50 a.m.* **Report** *Mr. Plutko* *Mr. Burgdorf*	**17**
7.	**U. T. System: Report on Systemwide institutional compliance activities**	*9:55 a.m.* **Report** *Mr. Plutko*	**17**
D.	**ADJOURN**	*10:00 a.m.*	

1. **U. T. System: Report on the internal audit plan for the Fiscal Year 2009 U. T. System Consolidated Annual Financial Report**

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will present the internal audit approach and plan for conducting the Fiscal Year 2009 U. T. System Consolidated Annual Financial Report audit including background, overview, and methodology.

Supplemental Materials: PowerPoint presentation on Pages 22 - 28 of Volume 2.

BACKGROUND INFORMATION

In November 2003, the U. T. System Board of Regents approved an initiative to implement the "spirit" of the Sarbanes-Oxley Act as a good faith effort toward manifesting financial accountability and compliance in the public sector. As a result, in June 2004, the Board of Regents sought proposals for a comprehensive annual financial statement audit by an independent certified public accounting firm to obtain assurance that U. T. System has a sound financial base and adequate resources to support the mission of the organization and the scope of its programs and services.

A contract with Deloitte & Touche, LLP, was negotiated to provide an audit of the U. T. System Consolidated Financial Statements for the fiscal year ended August 31, 2005. The contract commenced on August 30, 2004, and terminated on April 1, 2006. On March 28, 2006, the Board authorized a renewal of the contract for the fiscal year ended August 31, 2006. The contract commenced on April 1, 2006, and terminated on April 1, 2007. On April 16, 2007, the Board of Regents voted not to renew the contract for the fiscal year ended August 31, 2007, but expressed confidence in the financial audit work that could be performed by the institutional and U. T. System Administration auditors. As a result of that decision, the U. T. System Audit Office put together a plan to oversee and coordinate the internal audit of the U. T. System Consolidated Financial Statements for Fiscal Year 2007 and 2008 and will conduct this process again for the internal audit of the Fiscal Year 2009 U. T. System Consolidated Financial Statements.

2. **U. T. System: Discussion and appropriate action on independent financial audit of the U. T. System Consolidated Annual Financial Report**

PURPOSE

Committee Chairman Hicks will lead a discussion with Committee members on the question of whether to hire an external auditor to conduct an independent financial audit of the U. T. System Consolidated Annual Financial Report for Fiscal Year 2010.

BACKGROUND INFORMATION

At the August 2008 Audit, Compliance, and Management Review Committee meeting, Committee members agreed to revisit each August the question of hiring an independent financial auditor to audit the U. T. System Consolidated Annual Financial Report.

3. U. T. System: Report on the Systemwide annual audit plan process

REPORT

Mr. Charles Chaffin, Chief Audit Executive, will present the process for developing the Fiscal Year 2010 U. T. Systemwide Annual Audit Plan (Audit Plan), which is a blueprint of the internal audit activities that will be performed by the internal audit function throughout U. T. System. A timeline chart is set forth on Page 11.

Individual annual audit plans are prepared at U. T. System Administration and each institution in July and August with input and guidance from the U. T. System Audit Office, the Offices of Academic or Health Affairs, and the institution's management and Internal Audit Committee. Development of the annual audit plans is based on risk assessments performed at each institution to ensure areas/activities specific to each institution with the greatest risk are identified to be audited. The Chief Audit Executive provides direction to the internal audit directors prior to the preparation of the annual audit plans and provides formal feedback through "audit hearings" with each institution. After the review process, each institutional Internal Audit Committee formally approves its institution's annual audit plan in August.

Upon recommendation by the Audit, Compliance, and Management Review Committee, the U. T. System Board of Regents will be asked to approve the proposed Audit Plan at a special called meeting in October 2009. Implementation of the Audit Plan will be coordinated with the institutional auditors.

The University of Texas System
Nine Universities. Six Health Institutions. Unlimited Possibilities.

Annual Audit Plan Approval Process

Board of Regents (October/November)

↑

Audit, Compliance, and Management Review Committee (October)

↑

Institution Internal Audit Committees (August)
(includes Chief Administrator)

↑

System Administration - Audit Plan Hearings (August)
Institution Internal Audit Directors meet with the:
Chief Audit Executive (and/or delegate), Institutional Liaison, and a representative from Health Affairs or Academic Affairs

↑

System Administration and Internal Audit Directors coordinate the preparation of their risk-based audit plans (June & July)

4. U. T. System: Report on the Systemwide internal audit activities, including the audit of internal controls over the Permanent University Fund and audits of financial controls at the institutional police departments; and Internal Audit Department report for U. T. Pan American

REPORT

Mr. Eloy Alaniz, Director of Internal Audits, U. T. Pan American, will report on the significant audit finding related to account reconciliations from the Fiscal Year 2008 Annual Financial Report audit.

Mr. Charles Chaffin, Chief Audit Executive, will report on the audit performed of the Fiscal Year 2009 internal controls over financial reporting for the Permanent University Fund (PUF) managed by The University of Texas Investment Management Company (UTIMCO).

Then, Mr. Chaffin will report on the financial controls audits of the institutional police departments.

Additionally, Mr. Chaffin will report on the implementation status of significant audit recommendations. The third quarter activity report on the Implementation Status of Outstanding Significant Findings/Recommendations is set forth on Pages 13 - 14. Satisfactory progress is being made on the implementation of all significant recommendations. Additionally, a list of other audit reports issued by the Systemwide audit program and the annual internal audit plan status as of May 31, 2009, follow on Pages 15 - 16.

Supplemental Materials:

- **PowerPoint presentation on Pages 29 - 38 of Volume 2.**
- **UTIMCO PUF Internal Controls audit report on Pages 39 - 43 of Volume 2.**

BACKGROUND INFORMATION

Significant audit findings/recommendations are tracked by the U. T. System Audit Office. Quarterly, chief business officers provide the status of implementation, which is reviewed by the internal audit directors. A quarterly summary report is provided to the Audit, Compliance, and Management Review Committee of the U. T. System Board of Regents. Additionally, Committee members receive a detailed summary of new significant findings and related recommendations quarterly.

THE UNIVERSITY OF TEXAS SYSTEM
Implementation Status of Outstanding Significant Findings/Recommendations

U. T. SYSTEM AUDIT

Report Date	Institution	Audit	2nd Quarter 2009		3rd Quarter 2009		Targeted Implementation Date	Overall Progress Towards Completion (Note)
			Ranking	# of Significant Findings	Ranking	# of Significant Findings		
2007-06	UTARL	Implementation Progress of UTS163: Guidance on Effort Reporting Policies		1		1	10/31/2009	Satisfactory
2007-07	UTARL	Protecting the Confidentiality of Social Security Numbers		1		0	3/31/2009	Implemented
2008-01	UTARL	Systems Security Audit		1		1	12/31/2009	Satisfactory
2007-06	UTAUS	UTS163: Guidance on Effort Reporting Policies		1		1	4/30/2010	Satisfactory
2007-08	UTAUS	Payment Card Industry Data Security Standard (PCI DSS)		1		0	12/31/2009	Implemented
2004-03	UTB	FY 2004 Contracts and Grants Audit		1		0	5/31/2009	Implemented
2008-08	UTB	UTS165: Protecting the Confidentiality and Integrity of Digital Research Data Follow Up		2		2	12/31/2009	Satisfactory
2009-02	UTB	2008 Physical Plant Audit		1		1	8/31/2009	Satisfactory
2009-02	UTB	FY 2008 Student Fees Audit		1		1	8/31/2009	Satisfactory
2009-02	UTB	2008 Special Request - International Technology Education Commerce Campus Lease Agreements		3		3	8/31/2009	Satisfactory
2007-01	UTD	Annual Financial Report Audit		1		1	7/31/2009	Satisfactory
2007-02	UTEP	Campus wide Information Technology Applications		3		3	11/30/2009	Satisfactory
2007-11	UTEP	Decentralized Server Security		4		4	12/31/2009	Satisfactory
2008-05	UTEP	University Residence Life-Miner Village		1		1	12/31/2009	Satisfactory
2008-10	UTEP	Emergency Management Plan		1		0	3/31/2009	Implemented
2009-05	UTEP	Faculty Visas				1	8/31/2009	Satisfactory
2008-01	UTPA	Confidentiality of Social Security Numbers		1		1	8/31/2009	Satisfactory
2008-12	UTPA	FY 2008 Annual Financial Review		1		1	7/3/2009	Satisfactory
2007-08	UTPB	UTS163: Guidance on Effort Reporting Policies		1		1	7/31/2009	Satisfactory
2008-08	UTPB	Annual Financial Report Audit FY 2007		2		1	8/31/2009	Satisfactory
2008-12	UTPB	Annual Financial Report Audit FY 2008		5		4	8/31/2009	Satisfactory
2004-09	UTSA	Research Compliance - Time and Effort Reporting		1		0	5/31/2009	Implemented
2009-03	UTSA	Banner User Access (Security)				1	12/31/2010	Satisfactory
2008-09	UTSA	Information Technology Change Management Audit		1		1	9/30/2009	Satisfactory
2008-09	UTT	State and Federal Grant Awards Fiscal Year 2008		1		1	8/31/2009	Satisfactory
2008-11	UTT	Annual Financial Report for the Year Ended August 31, 2008		1		1	8/31/2009	Satisfactory
2008-12	UTT	Enrollment Management Department		3		3	8/31/2009	Satisfactory
2009-03	UTT	College of Business and Technology - Office of Dean and Assistant Dean				3	8/31/2009	Satisfactory
2009-04	UTT	Audit of Cash Handling Procedures				2	8/31/2009	Satisfactory
2008-04	UTMB - Galveston	PeopleSoft Application		1		0	3/31/2009	Implemented
2008-05	UTMB - Galveston	Information Systems Change Management Process		2		2	8/31/2009	Satisfactory
2008-05	UTMB - Galveston	Information Security Action Plan		2		2	2/28/2010	Satisfactory
2008-08	UTMB - Galveston	Data Retention and Records Management		4		3	8/31/2009	Satisfactory
2008-11	UTMB - Galveston	Remote Vendor Access		1		1	7/31/2009	Satisfactory
2009-05	UTMB - Galveston	Decentralized Information Technology Operations Security Process Review				1	8/31/2009	Satisfactory
2009-02	UTHSC - Houston	Medical Service, Research, and Development Plan		1		1	11/30/2009	Satisfactory
2007-09	UTHSC - San Antonio	Research Compliance Program		1		0	5/29/2009	Implemented
2008-10	UTHSC - San Antonio	Texas Administrative Code Section 202- Information Security Program		1		1	8/31/2009	Satisfactory
2001-08	UTMDACC - Houston	Lotus Notes Environment		1		1	5/31/2009	Satisfactory
2007-06	UTMDACC - Houston	Conflict of Interest		1		1	8/31/2009	Satisfactory
2007-09	UTMDACC - Houston	Maintenance and Security of Biological Research Materials		1		1	8/31/2009	Satisfactory
2007-10	UTMDACC - Houston	Research Compliance Design Review		1		1	11/30/2009	Satisfactory
2008-05	UTMDACC - Houston	Lab Safety		1		0	2/28/2009	Implemented
2008-05	UTMDACC - Houston	Clinical Trial Research		1		1	8/31/2009	Satisfactory
2008-05	UTMDACC - Houston	Advance Beneficiary Notice Implementation Review		1		1	5/31/2009	Satisfactory
2009-03	UTMDACC - Houston	Spirit of Sarbanes-Oxley				1	8/31/2009	Satisfactory

Information Received from Internal Audit Directors and Chief Business Officers
Consolidated by: System Audit Office
June 2009

THE UNIVERSITY OF TEXAS SYSTEM
Implementation Status of Outstanding Significant Findings/Recommendations

Report Date	Institution	Audit	2nd Quarter 2009 Ranking	2nd Quarter 2009 # of Significant Findings	3rd Quarter 2009 Ranking	3rd Quarter 2009 # of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note)
2009-03	UTMDACC - Houston	Wireless and Firewall Remote Access Security Assessment				4	8/31/2011	Satisfactory
2009-03	UTMDACC - Houston	A Review of Patient History Oracle Database Security				3	5/31/2009	Satisfactory
2009-03	UTMDACC - Houston	A Review of Patch Management				1	11/30/2009	Satisfactory
2009-03	UTMDACC - Houston	A Review of Performance and Capacity Monitoring				4	8/31/2009	Satisfactory
2005-04	UTHSC - Tyler	Texas Administrative Code 202 Compliance Audit		1		1	8/31/2009	Satisfactory
2005-12	UTSYS ADM	System wide Financial Audit FY 2005		1		1	9/30/2009	Satisfactory
2006-06	UTSYS ADM	UTIMCO Institutional Investment and Compliance Audits		1		1	12/31/2009	Satisfactory
2008-08	UTSYS ADM	FileNet Audit		1		1	9/30/2009	Satisfactory
2008-12	UTSYS ADM	Consolidated Annual Financial Report FY 2008		1		1	10/31/2009	Satisfactory
2009-03	UTSYS ADM	UT Federation Operating Practices and Procedures				1	12/31/2009	Satisfactory
		Totals		**65**		**76**		

STATE AUDITOR'S OFFICE AUDITS

Report Date	Institution	Audit	2nd Quarter 2009 Ranking	2nd Quarter 2009 # of Significant Findings	3rd Quarter 2009 Ranking	3rd Quarter 2009 # of Significant Findings	Targeted Implementation Date	Overall Progress Towards Completion (Note)
2007-03	UTPB	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2006		1		1	8/31/2009	Satisfactory
2009-03	UTPB	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				3	9/30/2009	Satisfactory
2009-03	UTSA	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				0	2/28/2009	Implemented
2009-03	UTSMC - Dallas	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				0	2/9/2009	Implemented
2009-04	UTSMC - Dallas	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				0	4/1/2009	Implemented
2009-04	UTHSC - Houston	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				0	6/30/2009	Implemented
2009-02	UTHSC - San Antonio	Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				1	10/31/2009	Satisfactory
2009-02	UTHSC - San Antonio	Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008				0	2/28/2009	Implemented
2007-05	UTSYS ADM	Charity Care at Health-Related Institutions		1		1	12/31/2009	Satisfactory
		Totals		**2**		**6**		

Color Legend:

- Either a new significant finding for which corrective action will be taken in the subsequent quarter or a previous significant finding for which no/limited progress was made towards implementation.
- Significant finding for which substantial progress towards implementation was made during the quarter that the significant finding was first reported.
- Significant finding for which substantial progress towards implementation was made during the quarter.
- Significant finding was appropriately implemented during the quarter and will no longer be tracked.

Note:
Implemented - The Internal Audit Director deems the significant finding has been appropriately addressed/resolved and should no longer be tracked.
Satisfactory - The Internal Audit Director deems that the significant finding is in the process of being addressed in a timely and appropriate manner.
Unsatisfactory - The Internal Audit Director deems that the significant finding is not being addressed in a timely and appropriate manner.

OTHER U. T. SYSTEM AUDIT REPORTS RECEIVED BY SYSTEM AUDIT 3/2009 THROUGH 5/2009	
Institution	**Audit**
UTAUS	Change in Management – Department of Asian Studies
UTAUS	Change in Management – Jackson School of Geosciences
UTAUS	Change in Management – College of Pharmacy
UTAUS	Change in Management – Jack S. Blanton Museum of Art
UTAUS	Department of History – Information Resources Use and Security Policy
UTAUS	Marine Science Institute Purchasing Audit
UTAUS	Liberal Arts Career Services - Procard
UTAUS	International Office
UTAUS	Change in Management - University of Texas Police Department
UTAUS	Change in Management – Department of Mathematics
UTAUS	Change in Management – Department of Educational Administration
UTAUS	Change in Management – Student Financial Services
UTAUS	Change in Management – Performing Arts Center
UTAUS	Change in Management – School of Undergraduate Studies
UTAUS	Change in Management – Hogg Foundation
UTAUS	Change in Management – University Charter School
UTAUS	Change in Management – Cockrell School of Engineering
UTAUS	National Automated Clearing House Association (NACHA) Rules - eChecks
UTAUS	Facilities Services
UTAUS	Fully Integrated and Automated Technology (FIATECH)
UTEP	Cost Sharing
UTEP	Conflict of Interest
UTEP	Human Subject Research
UTPA	Wellness Complex Director
UTPB	Center for Energy and Economic Diversification
UTSA	National Collegiate Athletic Associations (NCAA)
UTSA	Advanced Research/Technology Program Report
UTTY	Audit of the Enrollment Management Department
UTTY	Audit of the Office of Dean for the College of Business and Technology
UTSMC - Dallas	UTS166: Cash Handling and Cash Management Policy
UTSMC - Dallas	Medical Equipment - University Hospitals
UTSMC - Dallas	Payroll
UTSMC - Dallas	Texas Administrative Code 202 Compliance Audit
UTSMC - Dallas	Psychiatry
UTSMC - Dallas	UTS155: Policies & Procedures Regarding Medical Service Research Development Plan Business Operations
UTSMC - Dallas	Radiation Oncology
UTSMC - Dallas	Family Practice Residency Program Grants Texas Higher Education Coordinating Board (THECB) Requirement
UTMB - Galveston	Cash Handling
UTMB - Galveston	Correctional Managed Care (CMC) UTMB Hospital Expense Review
UTMB - Galveston	Information Services Strategic Planning
UTMB - Galveston	University Student Services Change in Management
UTMB - Galveston	Endowment Process Review
UTMB - Galveston	Advanced Research Program/Advanced Technology Program Grant Review
UTMB - Galveston	Hurricane Ike Expenditures Project
UTHSC - Houston	Research Conflicts of Interest
UTHSC - Houston	Dental Service Research and Development Plan
UTHSC - Houston	Wireless Networking
UTHSC - Houston	Executive Travel and Entertainment
UTHSC - Houston	Campus Security
UTHSC - Houston	Review of Royalty Payments
UTHSC - Houston	Advanced Research Program/Advanced Technology Program Grants
UTHSC - Houston	Follow-up on Open Recommendations
UTHSC - San Antonio	Conflict of Interest Audit
UTHSC - San Antonio	Scholarship Awards Audit
UTHSC - San Antonio	Change in Management: Department of Medicine
UTHSC - San Antonio	Follow Up Audit - 2nd Quarter
UTMDACC - Houston	ARAMARK Dining Services Contract
UTMDACC - Houston	Criminal Background Checks
UTMDACC - Houston	Disposition of Student Fees
UTMDACC - Houston	Department of Laboratory Medicine
UTMDACC - Houston	MedAptus Post-Implementation Review
UTMDACC - Houston	Unrestricted Gifts
UTMDACC - Houston	Campus Security
UTMDACC - Houston	Physical Access to Facilities
UTMDACC - Houston	Cash Handling
UTSYS ADM	Endeavor Energy
UTSYS ADM	UT Health Science Center - Houston Professor Royalties
UTSYS ADM	Systemwide Endowment Compliance
UTSYS ADM	Texas Administrative Code 202 Compliance Audi

STATE AUDITOR'S OFFICE AUDIT REPORTS RELEASED 3/2009 THROUGH 5/2009	
Institution	**Audit**
UT AUS, UTD, UTEP, UTPB, UTSA, UTSW, UTMB, UTHSCH, UTHSCSA	State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2008
UTSYS ADM, UT AUS, UTSA, UTSW, UTHSCSA	State Auditor's Office FY08 Comprehensive Annual Financial Report (CAFR)
UTMB - Galveston	Expenditures Related to Hurricane Ike at The University of Texas Medical Branch at Galveston
UTIMCO	Ethics Policies for Trustee Investing Practices at the Employees Retirement System, the Teacher Retirement System, and The University of Texas Investment Management Company

U. T. Systemwide FY 2009 Annual Internal Audit Plan Status
(as of May 31, 2009)

	Financial	Operational	Compliance	Information Technology	Follow-up	Projects	Total Actual Hours (*Note 1*)	Total Priority Budget Hours (*Note 2*)		Variance (Hours)	Percentage Completion
U. T. System Administration	5,962	4,571	863	742	332	2,126	14,596	18,205		3,609	**80%**
Large Institutions:											
U. T. Austin	1,407	2,427	1,154	972	214	5,543	11,717	16,540		4,823	**71%**
U. T. Southwestern	4,572	3,005	1,849	1,486	96	3,352	14,359	15,510		1,151	**93%**
U. T. Medical Branch at Galveston	1,060	896	520	845	303	1,816	5,440	7,490	*	2,050	**73%**
U. T. HSC - Houston	1,606	752	1,138	1,576	320	2,020	7,410	7,204		(206)	**103%**
U. T. HSC - San Antonio	1,684	1,021	1,110	409	463	1,919	6,606	7,300		694	**90%**
U. T. M. D. Anderson Cancer Center	2,164	5,651	1,449	1,109	457	1,915	12,745	17,768		5,024	**72%**
Subtotal	**12,492**	**13,751**	**7,220**	**6,397**	**1,853**	**16,564**	**58,276**	**71,812**		**13,536**	**81%**
Mid-size Institutions:											
U. T. Arlington	1,093	523	1,346	952	200	1,336	5,449	6,130		681	**89%**
U. T. Brownsville	714	678	309	261	125	966	3,052	4,030		978	**76%**
U. T. Dallas	1,263	1,505	797	348	132	588	4,632	4,520		(112)	**102%**
U. T. El Paso	1,935	3,042	1,287	660	321	997	8,241	8,756		515	**94%**
U. T. Pan American	990	896	928	-	10	1,159	3,983	5,110		1,127	**78%**
U. T. San Antonio	1,201	970	1,498	1,089	250	1,398	6,406	6,264		(142)	**102%**
Subtotal	**7,196**	**7,613**	**6,164**	**3,309**	**1,038**	**6,443**	**31,763**	**34,810**		**3,047**	**91%**
Small Institutions:											
U. T. Permian Basin	454	1,437	-	-	32	328	2,251	1,250		(1,001)	**180%**
U. T. Tyler	493	472	469	3	53	509	1,998	2,668		670	**75%**
U. T. HSC - Tyler	787	936	192	-	109	253	2,277	3,030		753	**75%**
Subtotal	**1,734**	**2,845**	**661**	**3**	**194**	**1,090**	**6,526**	**6,948**		**422**	**94%**
TOTAL	**27,384**	**28,781**	**14,908**	**10,451**	**3,416**	**26,222**	**111,161**	**131,775**		**20,614**	**84%**
Percentage of Total	**25%**	**26%**	**13%**	**9%**	**3%**	**24%**	**100%**				

NOTE 1:

"Total Actual Hours" are total actual hours for the six months from 9/1/08 through 5/31/09, which represents 75**%** of the audit plan year.

NOTE 2:

"Total Priority Budget Hours" (approximately 80-85% of total budget hours) reflect budgeted hours approved by the ACMR Committee for priority projects.

***** Total Priority Budget Hours for UT Medical Branch at Galveston was adjusted from 11,805 to 7,490 hours due to the impact of Hurricane Ike. The revised priority hours were approved by the ACMR Committee during the February 2009 meeting.

5. U. T. System: Report on the Systemwide Compliance Office work plans for Fiscal Years 2010 and 2011

REPORT

The Systemwide Compliance Office, including Systemwide Information Security, recently engaged in a strategic planning process to augment the familiar enterprise-wide risk assessment so as to more clearly determine the resources, key stakeholders, timelines, and desired outcomes of annual compliance work plans. The Systemwide Executive Compliance Committee met on April 24, 2009, and reviewed and approved the work plans.

Supplemental Materials: The Systemwide Compliance Work Plan and the Information Security Compliance Work Plan are included on Pages 44 - 50 of Volume 2.

6. U. T. System: Report on efforts to update and enhance research conflicts of interest policies, procedures, and enforcement at U. T. System institutions

REPORT

Mr. Lawrence Plutko, Systemwide Compliance Officer, and Mr. Barry Burgdorf, Vice Chancellor and General Counsel, will report on the progress of the Research Conflicts of Interest Committee.

7. U. T. System: Report on Systemwide institutional compliance activities

REPORT

Mr. Lawrence Plutko, Systemwide Compliance Officer, will brief the Audit, Compliance, and Management Review Committee on the third quarter report of the Systemwide Compliance Program. Institutional activity reports are presented to the Committee on a quarterly basis.

Supplemental Materials: Institutional Compliance Program Report Summary is included on Pages 51 – 54a of Volume 2.

TABLE OF CONTENTS
FOR
FINANCE AND PLANNING COMMITTEE

Committee Meeting: 8/19/2009

Board Meeting: 8/20/2009
Austin, Texas

Paul Foster, Chairman
Printice Gary
Wm. Eugene Powell
Robert Stillwell

1. <u>U. T. System: Discussion and appropriate action related to approval of *Docket No. 139*</u>

<u>RECOMMENDATION</u>

It is recommended that *Docket No. 139* be approved.

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

Supplemental Materials: Green pages following the Docket tab at the back of Volume 2.

2. <u>U. T. System: Key Financial Indicators Report and Monthly Financial Report</u>

<u>REPORT</u>

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 19 - 26 that follow, and the June Monthly Financial Report included in Volume 2. The reports represent the consolidated and individual operating results of the U. T. System institutions.

The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2005 through May 2009. Ratios requiring balance sheet data are provided for Fiscal Year 2004 through Fiscal Year 2008.

The Monthly Financial Report is provided as support for the Key Financial Indicators. The Report includes the detailed numbers behind the Operating Margin by Institution graph as well as detail for each individual institution as of June 2009.

Supplemental Materials: June Monthly Financial Report on Pages 55 - 79 of Volume 2.

THE UNIVERSITY OF TEXAS SYSTEM

QUARTERLY KEY FINANCIAL INDICATORS REPORT

3RD QUARTER FY 2009

KEY

Actual Annual Amounts
(SOURCE: Annual Financial Reports)

Budget amounts
(SOURCE: Operating Budget Summary)

Projected Amounts based on the average change of the previous three years of data

Monthly Financial Report Year-to-Date Amounts

Annual State Net Revenue Collections
(SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)

Year-to-Date State Net Revenue Collections
(SOURCE: State Comptroller's Office)

Estimated State Revenue Collections
(SOURCE: Biennial Revenue Estimate, State Comptroller's Office)

Annual and Quarterly Average of FTEs
(SOURCE: State Auditor's Office Quarterly FTE Report)

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Projected Amounts from current month projections

Year-to-Date Margin
(SOURCE: Monthly Financial Report)

Target Normalized Rates

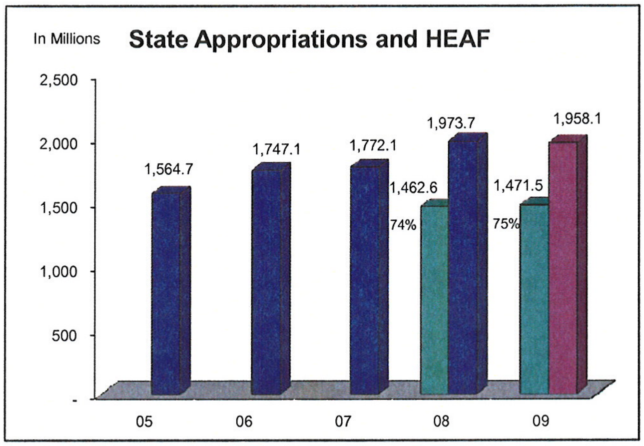
Aaa/Aa1 Median
(SOURCE: Moody's)

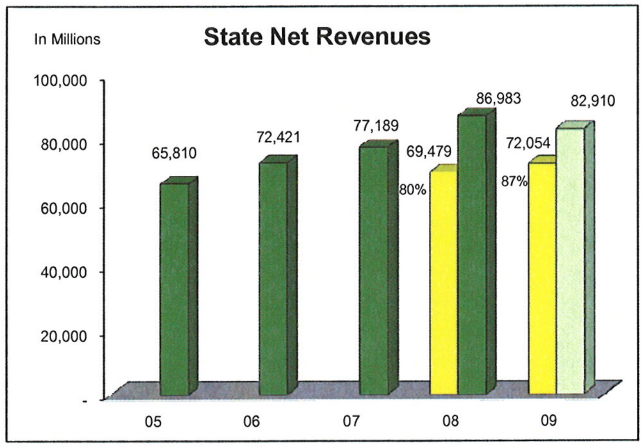
A2 Median
(SOURCE: Moody's)

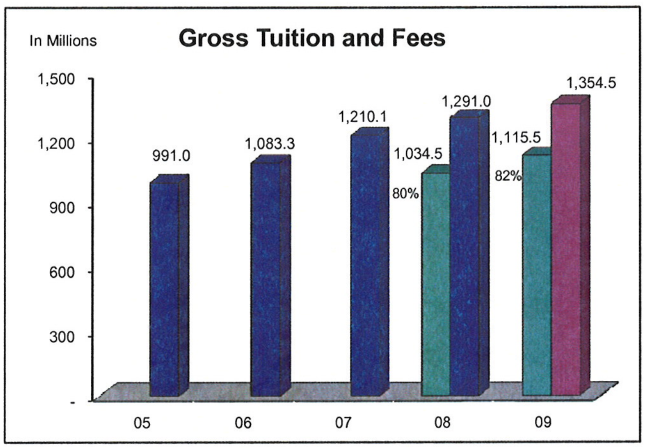
Good Facilities Condition Index (Below 5%)

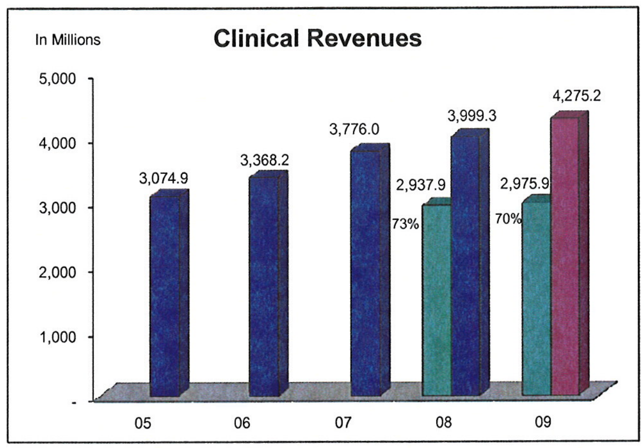
Fair Facilities Condition Index (5% - 10%)

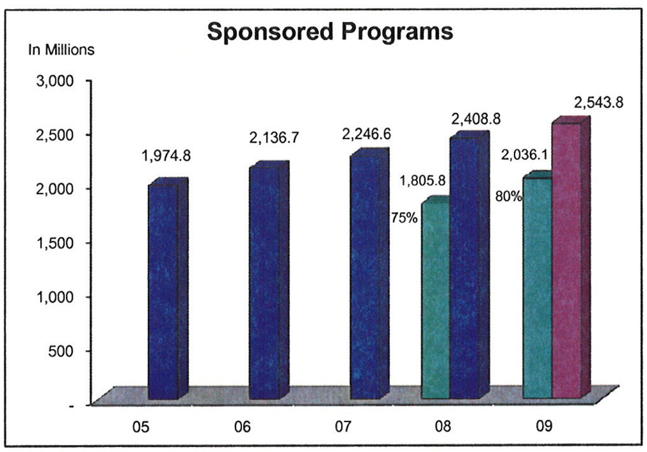
KEY INDICATORS OF REVENUES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM MAY MONTHLY FINANCIAL REPORT

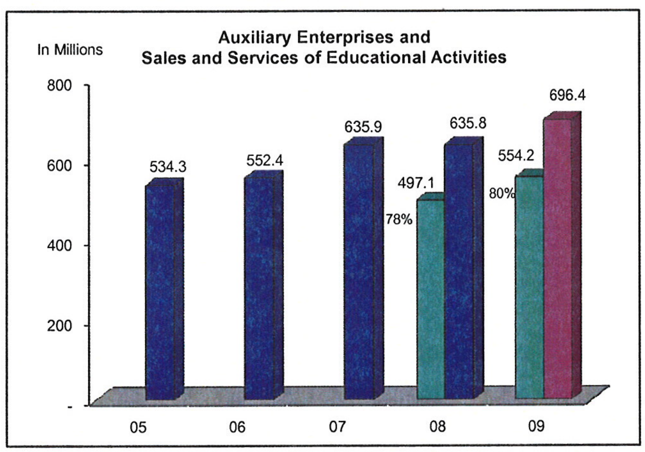


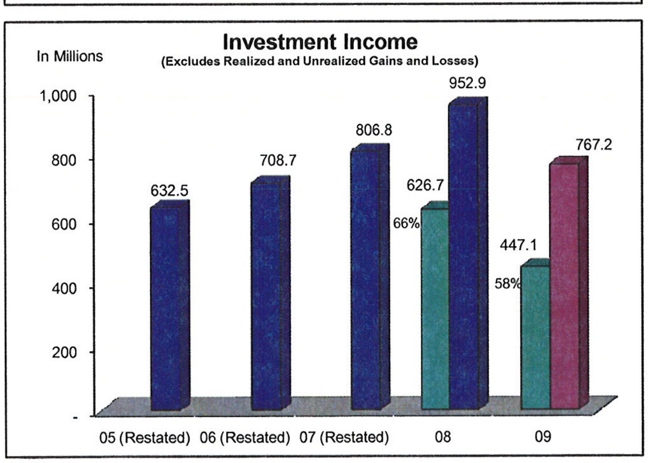


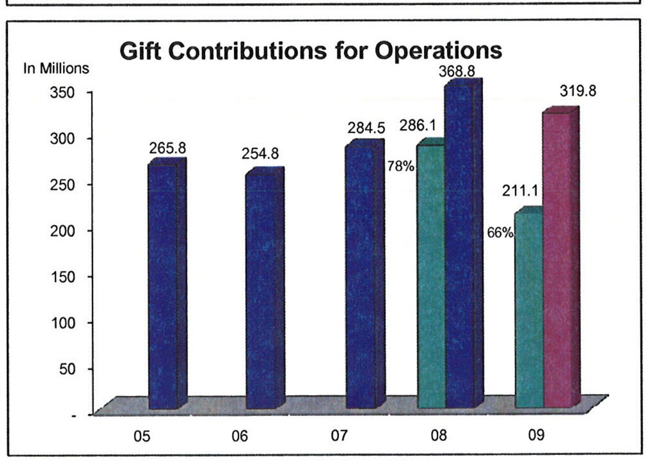




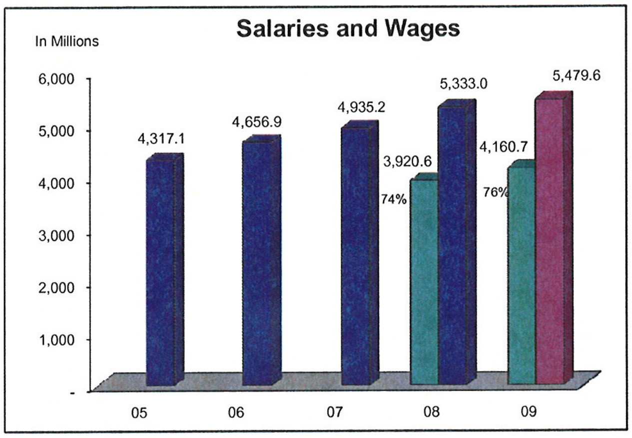


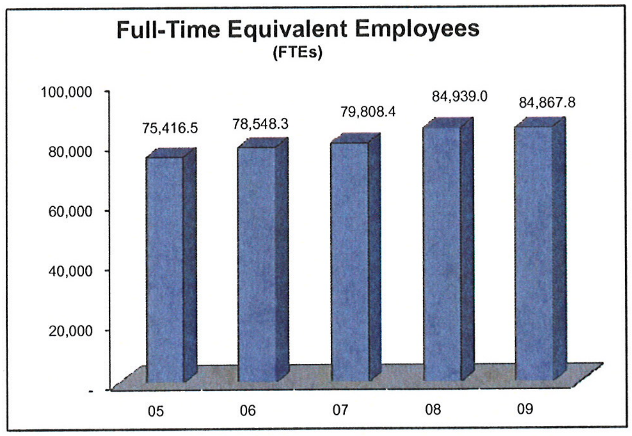


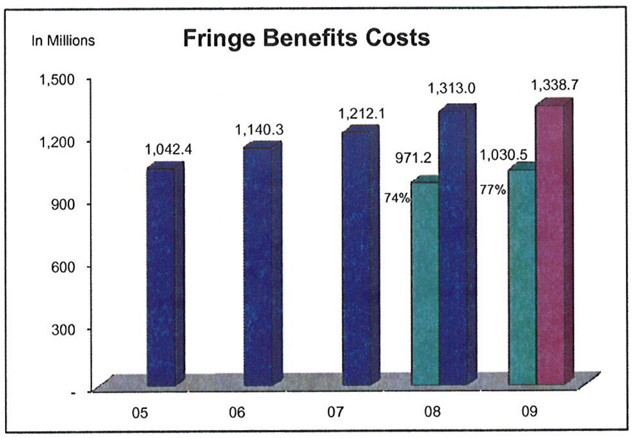


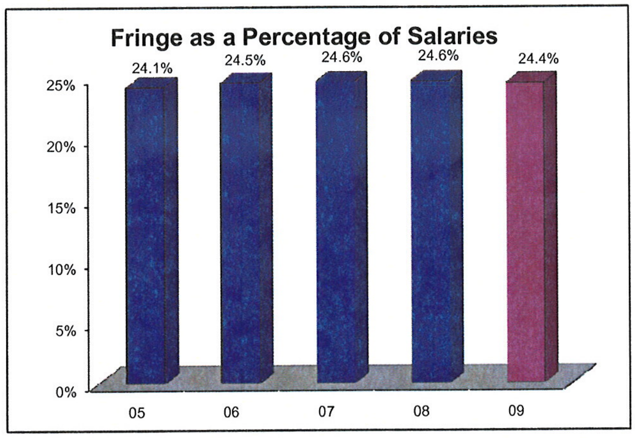


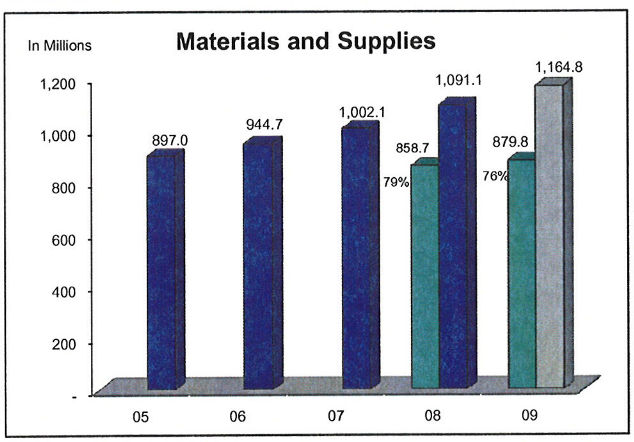
KEY INDICATORS OF EXPENSES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM MAY MONTHLY FINANCIAL REPORT

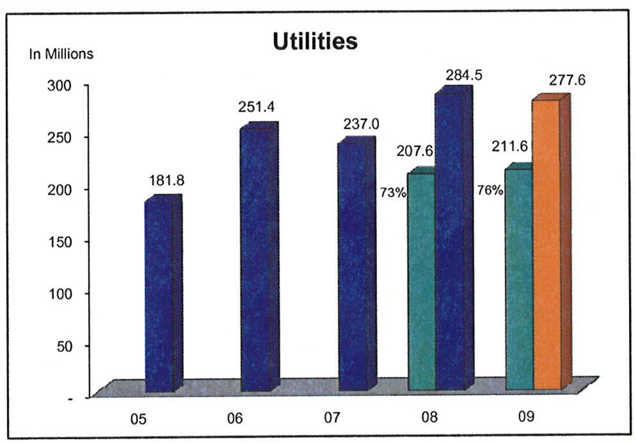


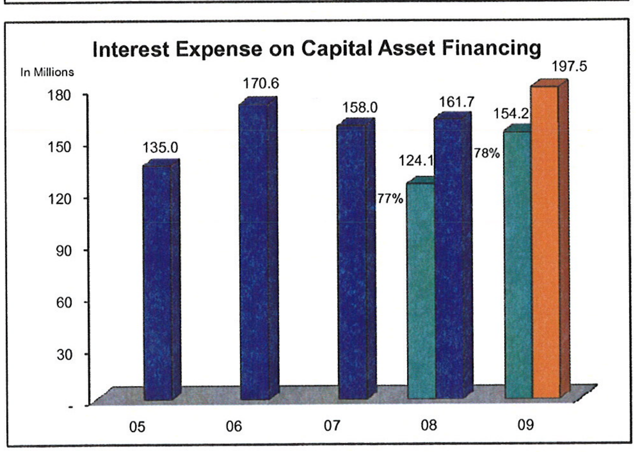


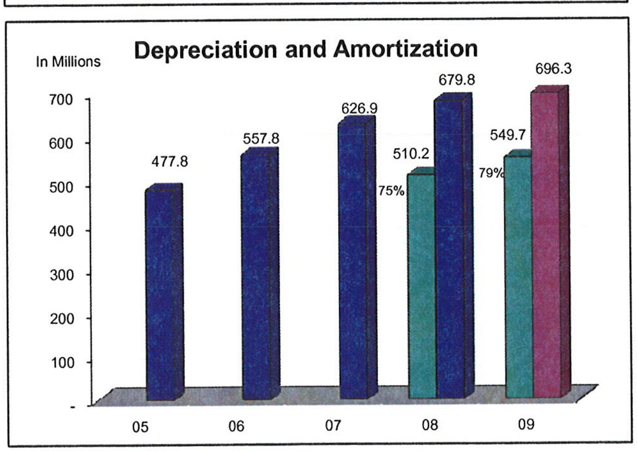




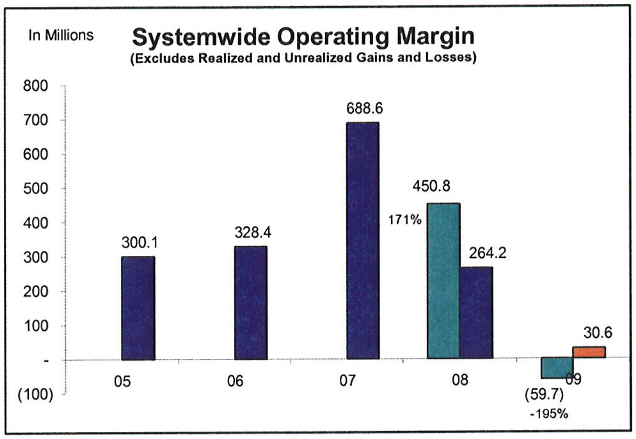


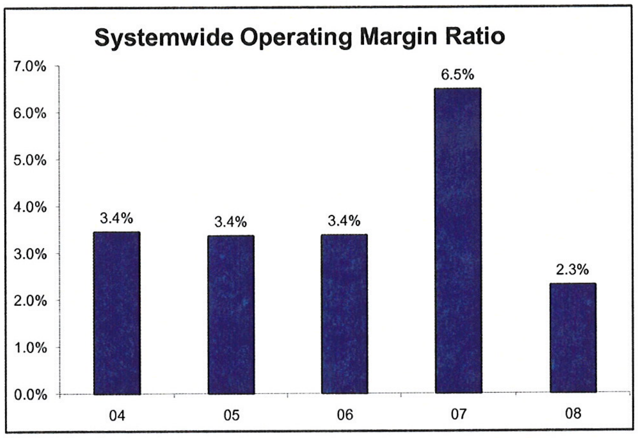


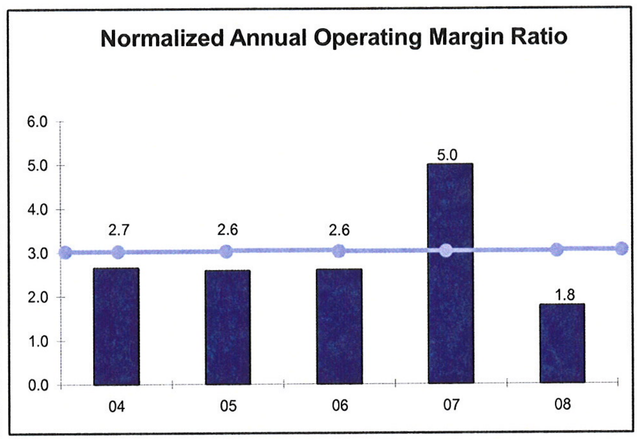


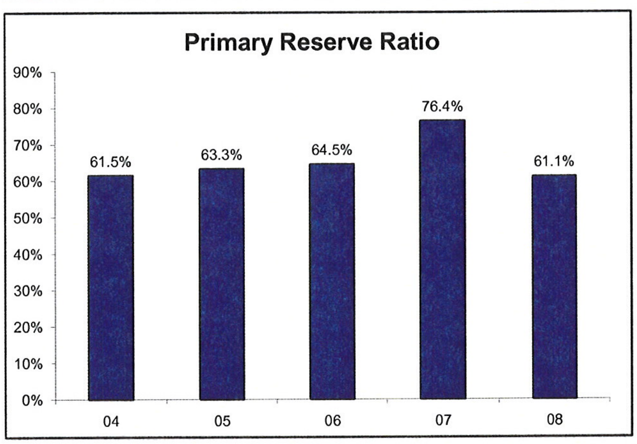


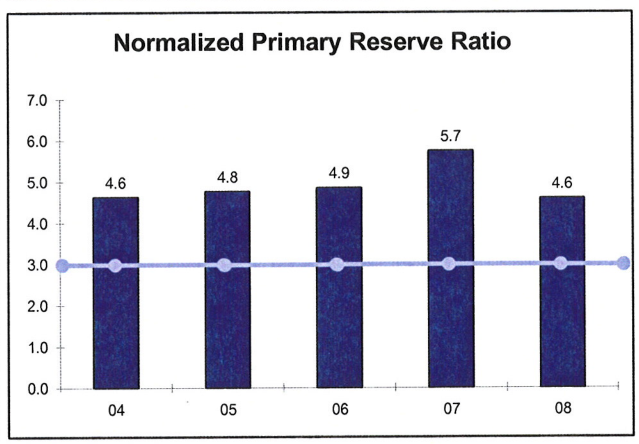
KEY INDICATORS OF RESERVES
ACTUAL 2004 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM MAY MONTHLY FINANCIAL REPORT

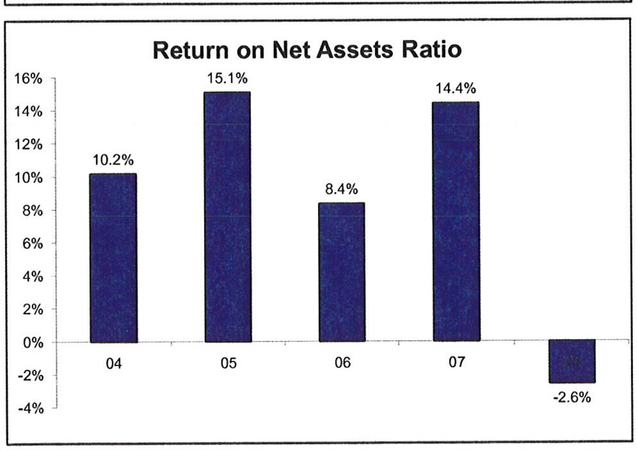


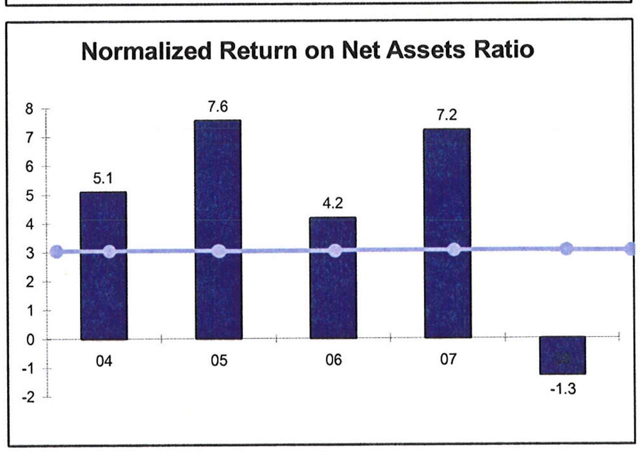


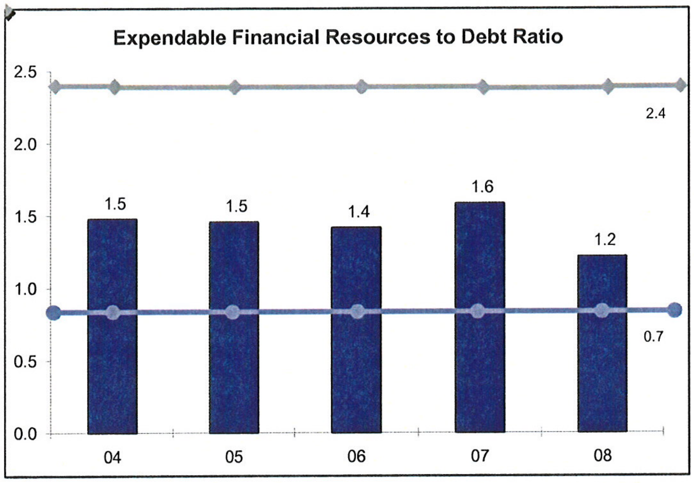


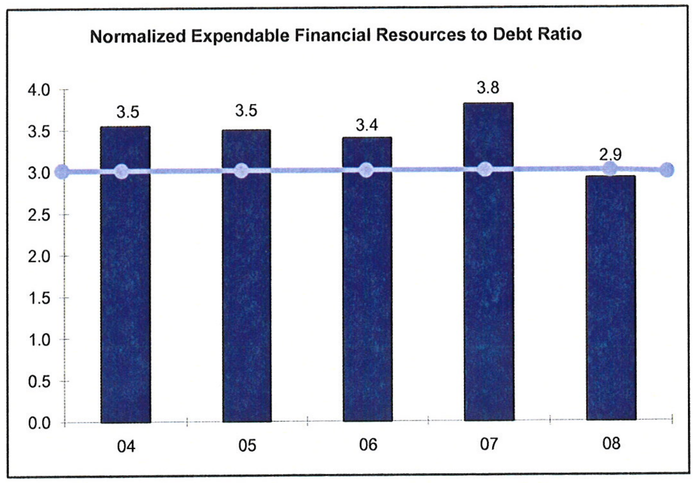


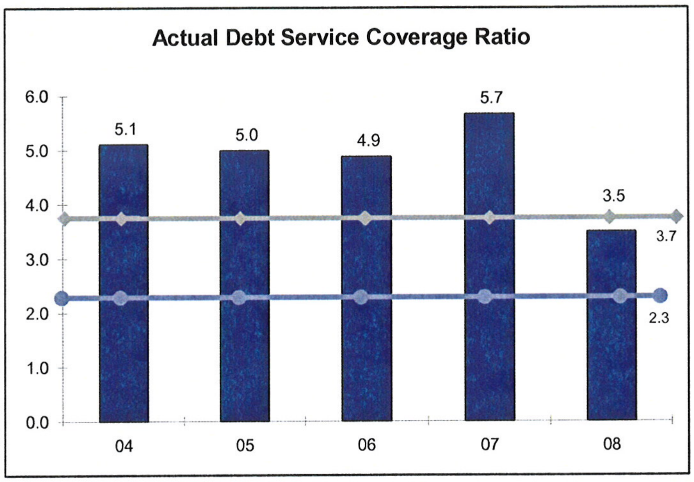


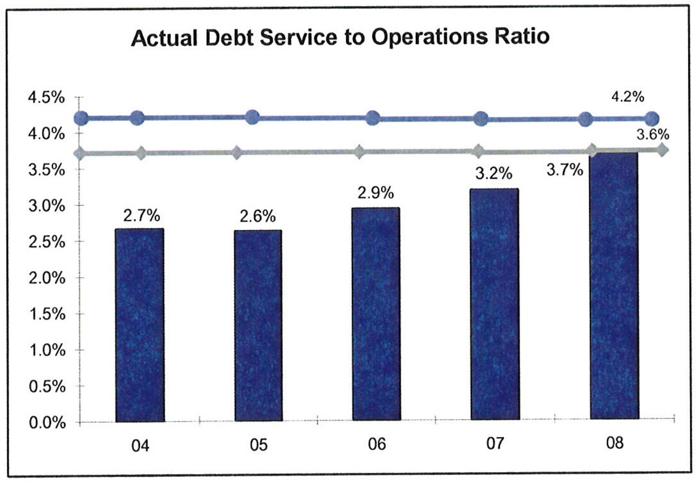


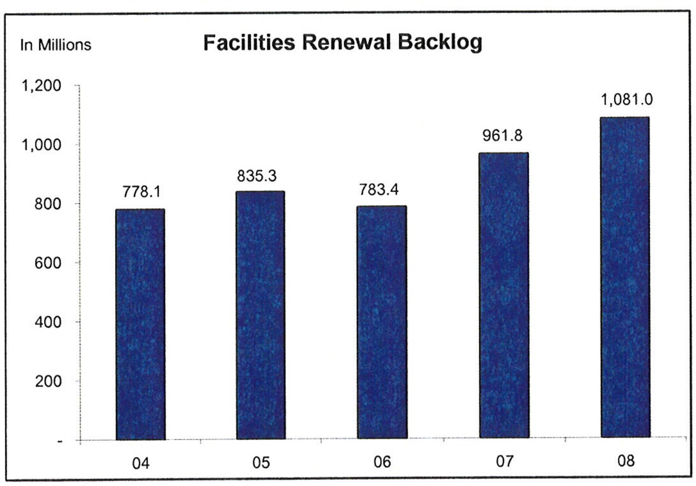


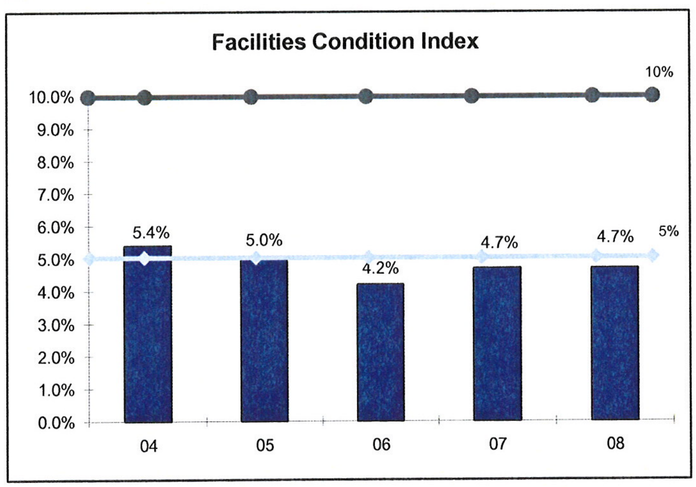

Expendable Financial Resources to Debt Ratio
2.5
2.0
1.5
1.0
0.5
0.0
1.5
1.5
1.4
1.6
1.2
2.4
0.7
04
05
06
07
08


Normalized Expendable Financial Resources to Debt Ratio
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
3.5
3.5
3.4
3.8
2.9
04
05
06
07
08


Actual Debt Service Coverage Ratio
6.0
5.0
4.0
3.0
2.0
1.0
0.0
5.1
5.0
4.9
5.7
3.5
3.7
2.3
04
05
06
07
08


Actual Debt Service to Operations Ratio
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
4.2%
3.6%
2.7%
2.6%
2.9%
3.2%
3.7%
04
05
06
07
08


In Millions
Facilities Renewal Backlog
1,200
1,000
800
600
400
200
-
778.1
835.3
783.4
961.8
1,081.0
04
05
06
07
08


Facilities Condition Index
10%
10.0%
9.0%
8.0%
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04
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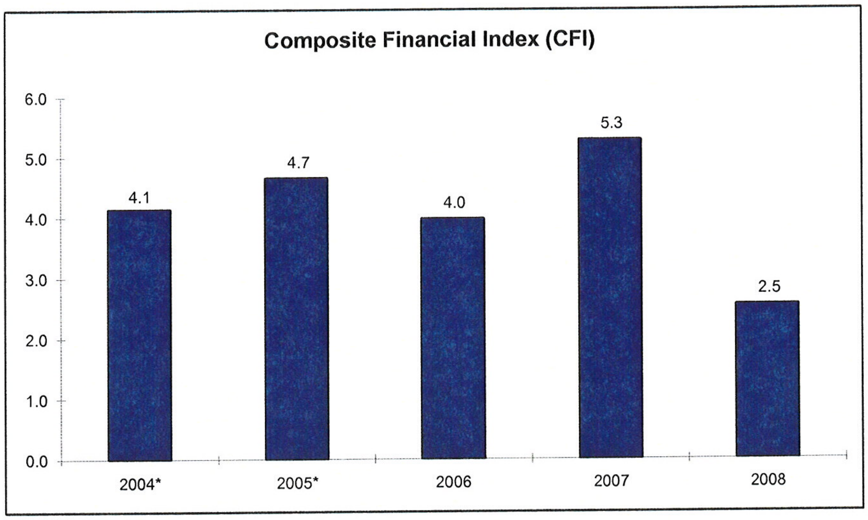
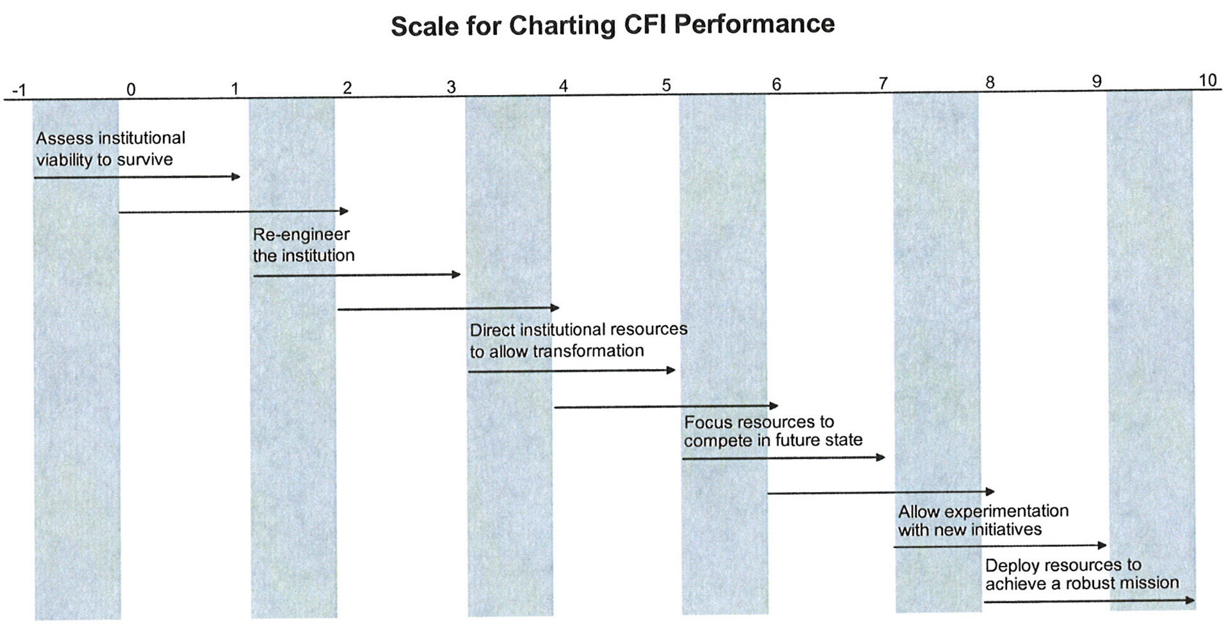
08

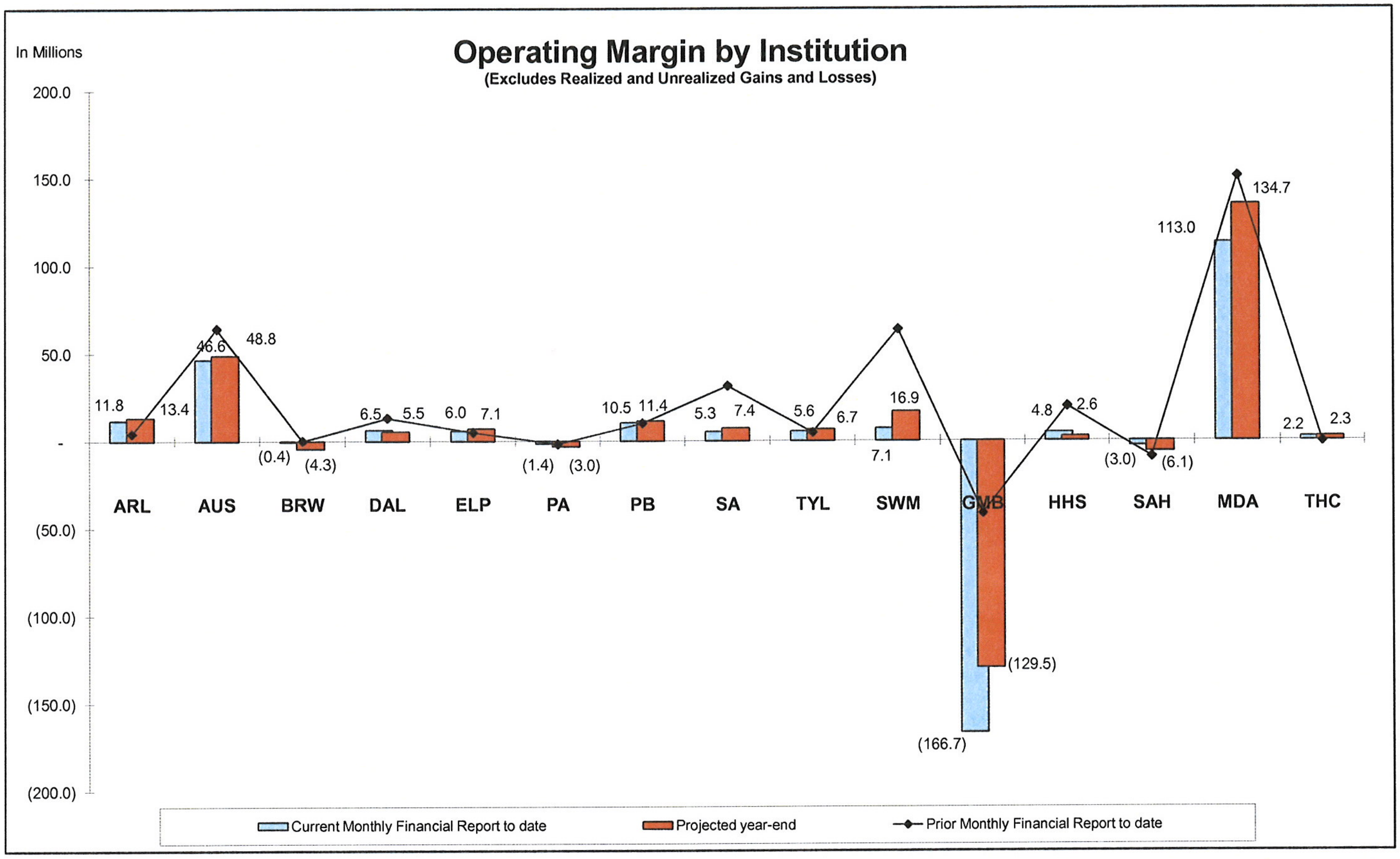
KEY INDICATORS OF FINANCIAL HEALTH
2004 THROUGH 2008

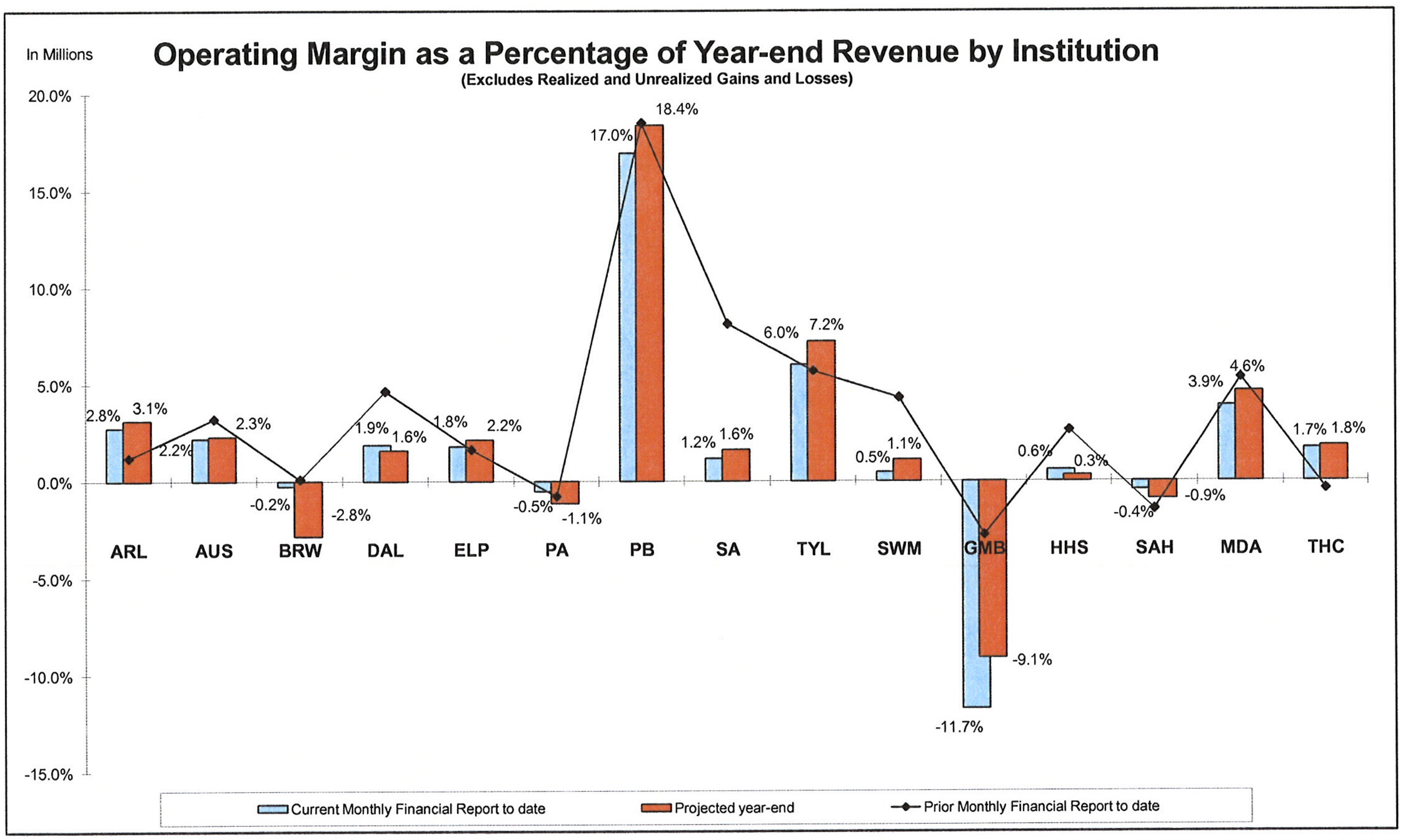


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit



KEY INDICATORS OF RESERVES
YEAR-TO-DATE 2008 AND 2009 FROM JUNE MONTHLY FINANCIAL REPORT
PROJECTED 2009 YEAR-END MARGIN





3. **U. T. System: Approval of transfer of funds between Legislative Appropriation items during the biennium beginning September 1, 2009**

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and presidents of the U. T. System institutions, recommends that the U. T. System Board of Regents adopt the resolution that follows to provide for the most effective utilization of General Revenue Appropriations during the biennium beginning September 1, 2009.

RESOLUTION

Pursuant to the appropriate transfer provisions of the General Appropriations Act of the 81st Texas Legislature, it is hereby resolved that the State Comptroller be requested to make necessary transfers within the Legislative Appropriations (and/or Informational Items of Appropriation) from the General Revenue Fund as authorized by the Chief Financial Officer of each entity as follows:

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
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 Science Center at Tyler
The University of Texas System Administration

BACKGROUND INFORMATION

This resolution is a standard action by the U. T. System Board of Regents at the beginning of each biennium and is pursuant to provisions of the General Appropriations Act, Article III, Section 4, enacted by the 81st Texas Legislature.

4. U. T. System: Approval to exceed the full-time equivalent limitation on employees paid from appropriated funds

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the presidents of the affected U. T. System institutions that the U. T. System Board of Regents approve allowing those institutions, as set forth in the table on Page 29, to exceed the number of full-time equivalent (FTE) employees paid from appropriated funds for Fiscal Year 2010 that are authorized in Article III of the General Appropriations Act. Also, as required by Article IX, Section 6.10 of the General Appropriations Act, it is recommended that the U. T. System 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.

Supplemental Materials: Detailed justification information on Pages 80 - 84 of Volume 2.

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. 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.

U. T. Arlington, U. T. Austin, U. T. Tyler, U. T. Medical Branch – Galveston, U. T. Health Science Center – Houston, U. T. M. D. Anderson Cancer Center, U. T. Health Science Center – Tyler, and U. T. System Administration will be under the FTE cap and are not requesting to exceed the FTE limitation.

The University of Texas System
Request to Exceed Full-time Equivalent Limitation on Employees Paid From Appropriated Funds
For Period September 1, 2009 through August 31, 2010

Request to Exceed Cap - by Function

	Faculty	Staff	Total
Instruction	347.68	84.56	432.24
Academic Support	0.65	60.92	61.57
Research	64.80	72.81	137.61
Public Service	2.04	9.90	11.94
Hospitals and Clinics	-	-	-
Institutional Support	-	91.60	91.60
Student Services	-	34.47	34.47
Operations and Maintenance of Plant	-	64.40	64.40
Scholarships and Fellowships	-	0.99	0.99
Total	415.17	419.65	834.82

Request to Exceed Cap - by Institution

		Request to Exceed Cap			
	FY 2010 Cap	Faculty	Staff	Total	
U. T. Arlington	2,257.90	-	-	-	*
U. T. Austin	6,519.10	-	-	-	*
U. T. Brownsville	548.90	126.97	136.85	263.82	
U. T. Dallas	1,237.00	42.00	61.00	103.00	
U. T. El Paso	1,730.30	45.00	27.00	72.00	
U. T. Pan American	1,843.30	3.00	7.25	10.25	
U. T. Permian Basin	296.40	13.70	24.85	38.55	
U. T. San Antonio	2,258.90	52.10	54.00	106.10	
U. T. Tyler	487.10	-	-	-	*
Total Academic Institutions	17,178.90	282.77	310.95	593.72	
U. T. Southwestern Medical Center	2,025.20	29.20	20.80	50.00	
U. T. Medical Branch - Galveston	5,818.70	-	-	-	*
U. T. Health Science Center - Houston	1,873.30	-	-	-	*
U. T. Health Science Center - San Antonio	2,308.90	103.20	87.90	191.10	
U. T. M. D. Anderson Cancer Center	13,081.90	-	-	-	*
U. T. Health Science Center - Tyler	708.40	-	-	-	*
Total Health Institutions	25,816.40	132.40	108.70	241.10	
U. T. System Administration	247.00	-	-	-	*
U. T. System Total	43,242.30	415.17	419.65	834.82	

* U. T. Arlington, U. T. Austin, U. T. Tyler, U. T. Medical Branch - Galveston, U. T. Health Science Center - Houston, U. T. M. D. Anderson Cancer Center, U. T. Health Science Center - Tyler, and U. T. System Administration will not exceed their cap.

5. <u>U. T. System Board of Regents: Approval of amendments to the Investment Policy Statements for the Permanent University Fund, the General Endowment Fund, the Permanent Health Fund, the Long Term Fund, the Intermediate Term Fund, the Liquidity Policy, and the Derivative Investment Policy</u>

<u>RECOMMENDATION</u>

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. System Board of Regents approve proposed amendments to the following Investment Policy Statements, including asset allocation, the Liquidity Policy, and the Derivative Investment Policy, as set forth on the referenced pages.

a. Permanent University Fund (PUF), General Endowment Fund (GEF), Permanent Health Fund (PHF), and Long Term Fund (LTF) Exhibit 1 (See Pages 33 - 34)

b. Intermediate Term Fund (ITF) Exhibit 2 (See Pages 35 - 36)

c. Liquidity Policy (See Pages 37 - 40)

d. Derivative Investment Policy (See Pages 41 - 48)

The amendments to the PUF and GEF Investment Policy Statement Exhibits are reflected in Exhibit 1 on Pages 33 - 34 and will be consistently applied to the PUF and GEF Investment Policy Statement Exhibit A, and the corresponding Exhibit B to the PHF and LTF Investment Policy Statements. The amendments to the ITF Investment Policy Statement Exhibit A are reflected in Exhibit 2 on Pages 35 - 36.

<u>BACKGROUND INFORMATION</u>

The Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO requires that UTIMCO review the current Investment Polices for each Fund at least annually. The review includes distribution (spending) guidelines, long-term investment return expectations and expected risk levels, Asset Class and Investment Type allocation targets and ranges for each eligible Asset Class and Investment Type, expected returns for each Asset Class, Investment Type, and Fund, designated performance benchmarks for each Asset Class and/or Investment Type, and such other matters as the U. T. System Board or its staff designees may request.

The UTIMCO Board approved the amendments on July 9, 2009. Mr. Bruce Zimmerman, Chief Executive Officer and Chief Investment Officer of UTIMCO, discussed UTIMCO's investment strategy, which included a discussion on the proposed changes to the Investment Policy Statements, the Liquidity Policy, and the Derivative Investment Policy, at the U. T. System Board of Regents' joint meeting with the UTIMCO Board on July 9, 2009.

Exhibits to the Investment Policy Statements for the PUF, GEF, PHF, LTF and ITF have been amended to reflect changes to the Targets and Ranges for Asset Classes and Investment Types proposed for Fiscal Year Ending (FYE) 2010. Targets and ranges through FYE 2011 that were previously approved are being eliminated and will be presented during next year's annual review.

In addition, the Exhibits reflect the names of two Policy Benchmark targets that have been changed: FTSE EPRA/NAREIT Global Index has changed to FTSE EPRA/NAREIT Developed Index and the Dow Jones-AIG Commodity Index Total Return has been changed to the Dow Jones-UBS Commodity Total Return Index. Barclays Capital Global High Yield Index has been deleted since there is no allocation to More Correlated & Constrained Fixed Income Credit-Related.

The Expected Target Annual Return (Active) has been deleted, and the one year downside deviation has been adjusted to reflect the revised Asset Class and Investment Type targets for FY 2010.

With respect to the ITF, the ITF's Expected Annual Return (Benchmark) target for FY 2010 has been updated and the Exhibit contains a new page to clarify Asset Class and Investment Type Ranges and Benchmarks.

The Short Term Fund (STF) Investment Policy Statement and the Separately Invested Funds (SIF) Investment Policy Statement have been reviewed by UTIMCO staff and there are no recommended changes. These investment policies were amended by the U. T. System Board on November 10, 2005 and July 13, 2006, respectively.

Proposed amendments to the Liquidity Policy are as follows:

- Definition of Cash - "Holdings" has been expanded to include "any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAm by Standard and Poors."

- Liquidity Risk Measurement - Language has been added to require UTIMCO staff to categorize and report all individual investments within the Endowment Funds and ITF as follows:

- Cash
- Liquid (Weekly)
- Liquid (Quarterly)
- Liquid (Annual)

- The Liquidity Policy Profile for the Endowment Funds has been changed to eliminate the liquidity limits and trigger zones for FYE 2008 and 2011.

- The Liquidity Policy Profile for the ITF has been updated to eliminate FYE 2008, 2010, and 2011. (The liquidity limits and trigger zones for FYE 2010 and 2011 are the same as for FYE 2009.)

- "Unfunded Commitments" maximum permitted amounts have been changed for FYE 2010 and the maximum permitted amounts for FYE 2008 and 2011 have been eliminated.

- Reporting has been changed to require a detailed analysis of liquidity by category for the Endowment Funds and the ITF.

Proposed amendments to the Derivative Investment Policy are as follows:

- Explicitly state those derivative investments in which UTIMCO staff is permitted to engage pursuant to the UTIMCO Board's delegation of authority. UTIMCO staff may only enter into Permitted Derivative Applications and then, only the five types of Derivative Investments set out on Exhibit B, Delegated Derivative Investments. Any Derivative Investment that does not meet these requirements, for derivative investments proposed by both UTIMCO staff and external managers operating under an Agency Agreement, will require UTIMCO staff to provide the UTIMCO Directors with an "Option to Review" the proposed derivative investment in the manner provided in the Delegation of Authority Policy before engaging in the derivative investment.

- Specifically state the documentation that must be maintained by UTIMCO staff and the reports that will be required to be made to the UTIMCO Board for accounting as well as risk reporting purposes.

EXHIBIT 1

ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES

EFFECTIVE SEPTEMBER~~JANUARY~~ 1, 2009

POLICY PORTFOLIO	FYE 2010			~~FYE 2011~~		
	Min	Target	Max	~~Min~~	~~Target~~	~~Max~~
Asset Classes						
Investment Grade Fixed Income	5.0%	9.5 ~~7.5%~~	20.0 ~~15.0%~~	~~5.0%~~	~~7.5%~~	~~15.0%~~
Credit-Related Fixed Income	3.0 ~~10.0%~~	5.5 ~~14.5%~~	30.0 ~~22.5%~~	~~10.0%~~	~~14.5%~~	~~22.5%~~
Real Estate	2.5 ~~5.0%~~	4.5 ~~8.0%~~	10.0 ~~15.0%~~	~~5.0%~~	~~8.5%~~	~~15.0%~~
Natural Resources	5.0%	9.0 ~~9.5%~~	15.0%	~~5.0%~~	~~10.0%~~	~~15.0%~~
Developed Country Equity	35.0 ~~37.5%~~	52.5 ~~43.0%~~	60.0 ~~50.0%~~	~~37.5%~~	~~41.0%~~	~~47.5%~~
Emerging Markets Equity	10.0 ~~12.5%~~	19.0 ~~17.5%~~	25.0 ~~22.5%~~	~~12.5%~~	~~18.5%~~	~~22.5%~~
Investment Types						
More Correlated & Constrained	35.0%	48.5 ~~41.5%~~	55.0 ~~47.5%~~	~~35.0%~~	~~41.0%~~	~~47.5%~~
Less Correlated & Constrained	25.0 ~~27.5%~~	30.0 ~~33.0%~~	35.0 ~~37.5%~~	~~27.5%~~	~~33.0%~~	~~37.5%~~
Private Investments	17.5 ~~21.0%~~	21.5 ~~25.5%~~	32.5 ~~31.0%~~	~~21.0%~~	~~26.0%~~	~~33.0%~~

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE 2010	~~FYE 2011~~
Barclays Capital Global Aggregate Index	7.5 ~~5.5%~~	~~5.5%~~
~~Barclays Capital Global High-Yield Index~~	~~1.0%~~	~~2.0%~~
FTSE EPRA/NAREIT Developed~~Global~~ Index	3.5 ~~5.0%~~	~~4.5%~~
50% Dow Jones-UBS~~AIG~~ Commodity ~~Index~~ Total Return Index and 50% MSCI World Natural Resources Index	5.5 ~~4.5%~~	~~4.0%~~
MSCI World Index with net dividends	19.0 ~~15.5%~~	~~14.5%~~
MSCI Emerging Markets with net dividends	13.0 ~~10.0%~~	~~10.5%~~
Hedge Fund Research Indices Fund of Funds Composite Index	30.0 ~~33.0%~~	~~33.0%~~
Venture Economics Custom Index	20.5 ~~22.5%~~	~~22.0%~~
NACREIF Custom Index	1.0 ~~3.0%~~	~~4.0%~~

POLICY/TARGET RETURN/RISKS	FYE 2010	~~FYE 2011~~
Expected Annual Return (Benchmarks)	8.86%	~~8.85%~~
~~Expected Target Annual Return (Active)~~	~~9.90%~~	~~9.87%~~
One Year Downside Deviation	9.05 ~~8.71%~~	~~8.67%~~
Risk Bounds		
Lower: 1 Year Downside Deviation	85%	~~85%~~
Upper: 1 Year Downside Deviation	115%	~~115%~~

EXHIBIT 1
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER~~JANUARY~~ 1, 2009

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Private Investments	Total
Fixed Income	Investment Grade	**Barclays Capital Global Aggregate Index** (7.5 ~~5.5~~%)	2.0%	0.0%	9.5 ~~7.5~~%
	Credit-Related	~~**Barclays Capital Global High-Yield Index**~~ (~~1~~0.0%)	3.0 ~~6.0~~%	2.5 ~~7.5~~%	5.5 ~~14.5~~%
Real Assets	Real Estate	**FTSE EPRA/NAREIT Developed~~Global~~ Index** (3.5 ~~5.0~~%)	0.0%	Custom NACREIF 1.0 ~~3.0~~%	4.5 ~~8.0~~%
	Natural Resources	**50% Dow Jones-UBS~~AIG~~ Commodity ~~Index~~ Total Return Index and 50% MSCI World Natural Resources Index** (5.5 ~~4.5~~%)	1.0 ~~2.5~~%	2.5%	9.0 ~~9.5~~%
Equity	Developed Country	**MSCI World Index with Net Dividends** (19.0 ~~15.5~~%)	20.0 ~~17.5~~%	13.5 ~~10.0~~%	52.5 ~~43.0~~%
	Emerging Markets	**MSCI EM Index with Net Dividends** (13.0 ~~10.0~~%)	4.0 ~~5.0~~%	2.0 ~~2.5~~%	19.0 ~~17.5~~%
Total		48.5 ~~41.5~~%	30.0 ~~33.0~~%	21.5 ~~25.5~~%	100.0%

Hedge Fund Research Indices Fund of Funds Composite Index

Venture Economics Custom Index

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

EXHIBIT 2 - INTERMEDIATE TERM FUND
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER~~JANUARY~~ 1, 2009

POLICY PORTFOLIO	FYE 2010			~~FYE 2011~~		
	Min	Target	Max	~~Min~~	~~Target~~	~~Max~~
Asset Classes						
Investment Grade Fixed Income	30.0 ~~20.0%~~	37.0%	45.0 ~~55.0%~~	~~20.0%~~	~~37.0%~~	~~55.0%~~
Credit-Related Fixed Income	0.0%	4.0 ~~5.5%~~	12.0 ~~12.5%~~	~~0.0%~~	~~5.5%~~	~~12.5%~~
Real Estate	0.0 ~~5.0%~~	5.0 ~~10.0%~~	10.0 ~~15.0%~~	~~5.0%~~	~~10.0%~~	~~15.0%~~
Natural Resources	2.5 ~~0.0%~~	8.5 ~~7.0%~~	12.5 ~~10.0%~~	~~0.0%~~	~~7.0%~~	~~10.0%~~
Developed Country Equity	25.0 ~~20.0%~~	33.0 ~~30.5%~~	40.0 ~~45.0%~~	~~20.0%~~	~~30.5%~~	~~45.0%~~
Emerging Markets Equity	7.5 ~~0.0%~~	12.5 ~~10.0%~~	17.5 ~~15.0%~~	~~0.0%~~	~~10.0%~~	~~15.0%~~
Investment Types						
More Correlated & Constrained	60.0 ~~70.0%~~	65.0 ~~75.0%~~	70.0 ~~80.0%~~	~~70.0%~~	~~75.0%~~	~~80.0%~~
Less Correlated & Constrained	30.0 ~~20.0%~~	35.0 ~~25.0%~~	40.0 ~~30.0%~~	~~20.0%~~	~~25.0%~~	~~30.0%~~

*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE 2010	~~FYE 2011~~
Barclays Capital Global Aggregate Index	35.0 ~~33.0%~~	~~33.0%~~
~~Barclays Capital Global High-Yield Index~~	~~2.0%~~	~~2.0%~~
FTSE EPRA/NAREIT Developed~~Global~~ Index	5.0 ~~10.0%~~	~~10.0%~~
50% Dow Jones-UBS~~AIG~~ Commodity ~~Index~~ Total Return Index and 50% MSCI World Natural Resources Index	7.5 ~~5.0%~~	~~5.0%~~
MSCI World Index with net dividends	10.0 ~~20.0%~~	~~20.0%~~
MSCI Emerging Markets with net dividends	7.5 ~~5.0%~~	~~5.0%~~
Hedge Fund Research Indices Fund of Funds Composite Index	35.0 ~~25.0%~~	~~25.0%~~

POLICY/TARGET RETURN/RISKS	FYE 2010	~~FYE 2011~~
Expected Annual Return (Benchmarks)	7.28 ~~7.16%~~	~~7.16%~~
~~Expected Target Annual Return (Active)~~	~~7.83%~~	~~7.83%~~
One Year Downside Deviation	5.34 ~~6.38%~~	~~6.38%~~
Risk Bounds		
Lower: 1 Year Downside Deviation	85%	~~85%~~
Upper: 1 Year Downside Deviation	115%	~~115%~~

EXHIBIT 2 - INTERMEDIATE TERM FUND
(continued)
ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES
EFFECTIVE DATE SEPTEMBER 1, 2009

POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2010

FYE 2010		More Correlated & Constrained	Less Correlated & Constrained	Total
Fixed Income	Investment Grade	**Barclays Capital Global Aggregate Index** (35.0%)	2.0%	**37.0%**
	Credit-Related	(0.0%)	4.0%	**4.0%**
Real Assets	Real Estate	**FTSE EPRA/NAREIT Developed Index** (5.0%)	0.0%	**5.0%**
	Natural Resources	**50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index** (7.5%)	1.0%	**8.5%**
Equity	Developed Country	**MSCI World Index with Net Dividends** (10.0%)	23.0%	**33.0%**
	Emerging Markets	**MSCI EM Index with Net Dividends** (7.5%)	5.0%	**12.5%**
Total		**65.0%**	**35.0%**	**100.0%**

Less Correlated & Constrained (yellow): Hedge Fund Research Indices Fund of Funds Composite Index

Investment Policy/Benchmarks are indicated in Black/Bold
Reportable Targets are indicated in Gray

The University of Texas Investment Management Company
Liquidity Policy

Effective Date of Policy: ~~August 14, 2008~~ August 20, 2009
Date Approved by U.T. System Board of Regents: August 20, 2009
Date Approved by UTIMCO Board: July 9, 2009
Original Effective Date of Policy: August 7, 2003
Supersedes: Liquidity Policy dated August 14, 2008~~December 6, 2007~~

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, "liquidity" is defined as a measure of the ability of an investment position to be converted into ~~a~~ Cash ~~position~~. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

"Liquidity risk" is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower than expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions. Modern finance theory asserts that liquidity risk is a systematic risk factor that is incorporated into asset prices such that future longer-term returns will be higher for assets with higher liquidity risk, although that may not be the case in the short term.

Definition of Cash:

Cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- the existing Dreyfus Institutional Preferred Money Market Fund mandate and any other UTIMCO Board approved SEC Rule 2a-7 money market fund rated AAAm by Standard & Poors,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps, and

- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent.

Liquidity Risk Measurement-The Liquidity Profile:

~~Capital market theory does not provide a precise technique to measure liquidity risk.~~ For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of one day to less than 90 days in an orderly market at a discount of 10% or less.

- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of 90 days or more or in a shorter period of time by accepting a discount of more than 10%.

UTIMCO staff will report individual investments within the Endowment Funds and ITF categorized as follows:

- Cash: Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.

- Liquid (Weekly): Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.

- Liquid (Quarterly): Investments that could be converted to Cash within a period of one day to less than 90 days in an orderly market at a discount of 10% or less.

- Liquid (Annual): Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions. In addition, swaps, derivatives, or other third party arrangements to alter the status of an investment classified as illiquid may be considered, with the prior approval of the UTIMCO Board or the Risk Committee, in determining the appropriate liquidity category for each investment.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies “trigger zones” requiring special review by UTIMCO staff and special action by the UTIMCO Board or the Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The current Liquidity Policy Profile ranges and trigger zones for each of the Endowment Funds are defined by the table below:

	~~FY 08~~	FY 09	FY 10+	~~FY 11~~
Liquidity above trigger zone:	~~42.5%~~	35.0%	30.0%	~~28.0%~~

Liquidity within trigger zone:	~~37.5%-42.5%~~	30.0%-35.0%	25.0%-30.0%	~~23.0%-28.0%~~
Liquidity below trigger zone:	~~<37.5%~~	<30.0%	<25.0%	~~<23.0%~~

Investments that maintain liquidity below the trigger zone do not require any action by the UTIMCO Board or the Risk Committee. Liquidity within the trigger zone requires special action by the UTIMCO Board or the Risk Committee. For example, the allowable range for **illiquid** investments in FY 09~~8~~ is up to 70~~62~~.0~~5~~% of the total portfolio. However, any **illiquid** investments made in the 65~~7~~.0~~5~~% to 70~~62~~.0~~5~~% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

The current Liquidity Policy Profile ranges and trigger zones for the ITF are defined by the table below:

	~~FY 08~~	FY 09+	~~FY 10~~	~~FY 11~~
Liquidity above trigger zone:	~~65%~~	65%	~~65%~~	~~65%~~
Liquidity within trigger zone:	~~55%-65%~~	55%-65%	~~55%-65%~~	~~55%-65%~~
Liquidity below trigger zone:	~~<55%~~	<55%	~~<55%~~	~~<55%~~

The allowable range for **illiquid** investments is 0% to 45% of the total portfolio for the ITF. However, any **illiquid** investments made in the 35% to 45% trigger zone require prior approval by the Risk Committee or the UTIMCO Board. Risk Committee review of new investments in the illiquid trigger zone will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

Unfunded Commitments:

As used herein, "unfunded commitments" refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

	~~FY 08~~	FY 09	FY 10+	~~FY11~~
Unfunded Commitment as a percent of total invested assets:	~~25.0%~~	27.5%	30~~2~~.0~~5~~%	~~32.5%~~

No new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such commitment, would exceed the Maximum Permitted Amount.

Documentation and Controls:

Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments for each Endowment Fund. The determination of liquidity will include underlying security trading volumes, notice periods, redemption dates, lock-up periods, and "soft" and "hard" gates. These classifications will be reviewed by the Risk Manager and the Chief Compliance Officer, and must receive final approval from the Chief Investment Officer. Classifications and weights within each liquidity category will be updated and reported on a monthly basis. All new investments considered will be categorized by liquidity category, and a statement regarding the effect on overall liquidity and the amount of unfunded commitments for each Endowment Fund of the addition of a new investment must be an element of the due diligence process and will be a part of the recommendation report to the UTIMCO Board.

As additional safeguards, trigger zones have been established as indicated above to trigger required review and action by the UTIMCO Board or the Risk Committee in the event any investment action would cause the actual investment position in illiquid investments to enter the designated trigger zone, or in the event market actions caused the actual investment position in illiquid investments to move into trigger zones. In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the UTIMCO Board or the Risk Committee prior to the change. Any actual positions in any trigger zones or outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the process to be used to eliminate the exception and report promptly to the UTIMCO Board and the Risk Committee the circumstances of the deviation from Policy and the remedy to the situation. Furthermore, as indicated above, no new commitments may be made for an Endowment Fund without approval from the Risk Committee if the actual amount of unfunded commitments for such Endowment Fund exceeds, or, as a result of such new commitment, would exceed, the Maximum Permitted Amount.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF, including a detailed analysis of liquidity by category, and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Board on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

The University of Texas Investment Management Company
Derivative Investment Policy

Effective Date of Policy: ~~December 6, 2007~~ August 20, 2009
Date Approved by U.T. System Board of Regents: August 20, 2009
Date Approved by UTIMCO Board: ~~November 29, 2007~~ July 9, 2009
Supersedes: Derivative Investment Policy approved ~~by the UTIMCO Board on March 30, 2006~~December 6, 2007

Purpose:

The purpose of the Derivative Investment Policy is to ~~enumerate~~ set forth the applications, documentation and limitations for investment in derivatives in the Permanent University Fund (PUF), the General Endowment Fund (GEF), the Intermediate Term Fund (ITF), and the Separately Invested Funds (SIF), hereinafter referred to as the Funds. The Board of Regents approved investment policy guidelines for the Funds to allow for investment in derivatives provided that their use is in compliance with UTIMCO's Board approved Derivative Investment Policy. This Derivative Investment Policy supplements the Investment Policy Statements for the Funds.

Objective:

The objective of investing in derivatives is to facilitate risk management and provide efficiency in the implementation of various investment strategies for the Funds. ~~Through the use of derivatives, the complex risks that are bound together in traditional Cash market investments can be separated and managed independently.~~ Derivatives can provide the Funds with more economical means to improve the Funds' risk/return profile.

Scope:

~~Except where specifically noted, t~~This Policy applies to all derivatives ~~transactions~~ in the Funds executed by ~~internal~~ UTIMCO staff and by external managers operating under an Agency Agreement. This Policy does not apply to external managers operating under limited partnership agreements, offshore corporations, or other Limited Liability Entities that limit the liability exposure of the Funds' investments. Derivative policies for external managers are established on a case-by-case basis with each external manager, as described below.

This Policy applies to both exchange traded derivatives and over the counter (OTC) derivatives ~~instruments~~. This Policy shall not be construed to apply to index or other common or commingled funds that are not controlled by UTIMCO. These commingled investment vehicles are governed by separate investment policy statements.

External Managers:

External managers are selected to manage the Funds' assets under either an Agency Agreement or through a Limited Liability Entity. An external ~~investment~~ manager operating under an Agency Agreement may engage in derivative ~~transactions~~ investments only if (i) such manager has been approved to use derivatives by the UTIMCO Chief Investment Officer and (ii) the ~~transactions~~ investments are consistent with the overall investment objectives of the account and in compliance with this Policy. The use of derivatives by an external manager operating under an Agency Agreement shall be approved by the UTIMCO Chief Investment Officer only for ~~investment~~ external managers that (i) demonstrate investment expertise in their use, (ii) have appropriate risk management and valuation policies and procedures, and (iii) effectively monitor and control their use.

While this Policy does not specifically include external managers operating through a Limited Liability Entity, it is noted that selecting and monitoring external managers through a Limited Liability Entity requires a clear understanding of the external managers' use of derivatives, particularly as it relates to various risk controls and leverage. ~~These managers typically have complete delegated authority, and~~

~~monitoring of risk exposures and leverage is done by the manager on both an individual entity and aggregate basis.~~ The permitted uses of derivatives and leverage ~~are~~ must be fully documented in the limited liability agreements with these managers.

Definition of Derivatives:

Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index of securities or assets (such as bonds, stocks, commodities, and currencies). For the purposes of this Policy, derivatives shall include ~~futures contracts, forward contracts, swaps and all forms of options,~~Derivative Investments but shall not include a broader range of securities, including mortgage backed securities, structured notes, convertible bonds, and exchange traded funds (ETFs). Derivatives may be purchased through a national exchange or through an OTC direct arrangement with a counterparty. Refer to the attached Exhibit A for a glossary of terms.

Permitted Derivative Applications:

The primary intent of derivatives should be to hedge risk in portfolios or to implement investment strategies more effectively and at a lower cost than would be possible in the Cash market.

Permitted Derivative A~~a~~pplications are Derivative Investments~~may be~~ used:

- To implement investment strategies in a low cost and efficient manner;
- To alter the Funds' market (systematic) exposure without trading the underlying Cash market securities through purchases or short sales, or both, of appropriate derivatives;
- To construct portfolios with risk and return characteristics that could not be created with Cash market securities;
- To hedge and control risks; or
- To facilitate transition trading;

provided however, that after implementing any Derivative Investment, the Funds' projected downside deviation is within the Funds' projected downside deviation range and risk bounds, and the Asset Class and Investment Type exposures are within permissible ranges as set forth in the Funds' Investment Policy Statements.

~~Except as provided below, only the above derivative applications are permitted until such time as this Policy is amended and approved by UTIMCO's Board and the U.T. System Board of Regents. The UTIMCO Chief Investment Officer shall recommend and the~~ UTIMCO staff may not enter into any Derivative Investment that is not a Permitted Derivative Application. To the extent that a Derivative Investment is a Permitted Derivative Application but is not within the delegated authority as set forth on Exhibit B, the UTIMCO Board ~~must approve~~will be provided with an "Option to Review" following the process outlined in Exhibit A to the Delegation of Authority Policy. This "Option to Review" applies to any new D~~d~~erivative ~~applications~~ Investment recommended by ~~internal~~ UTIMCO staff and approved by UTIMCO's Chief Investment Officer that is not within the delegated authority set forth on Exhibit B or the engagement of ~~or by~~ an external manager operating under an Agency Agreement that seeks to engage in a Derivative Investment that is not within the delegated authority set forth on Exhibit B. ~~prior to implementation, after fully considering the permissibility, merits, and compliance with all documentation and controls requirements of the application.~~ Notwithstanding, with respect to any Derivative Investment, UTIMCO's Chief Investment Officer, the Risk Manager, or Chief Compliance Officer may determine that presentation and approval of the proposed Derivative Investment at a UTIMCO Board meeting is warranted before engaging in the Derivative Investment.

~~Derivative Applications Not Permitted:~~

~~Derivative applications shall not be used to invest in asset classes that are not consistent with the Funds' policy Asset Classes, implementation strategies and risk/return characteristics.~~

Documentation and Controls:

Prior to the implementation of a new D~~d~~erivative ~~application~~ Investment by ~~internal~~ UTIMCO staff ~~or by an external manager operating under an Agency Agreement~~, UTIMCO staff shall document the purpose, ~~justification, baseline portfolio, derivative application portfolio,~~ valuation method, methods for calculating delta, delta-adjusted exposure, Asset Class and Investment Type exposure, the effect on portfolio leverage (if applicable), risks (including, but not limited to ~~at a minimum~~ modeling, pricing, liquidity and ~~legal~~ counterparty risks), the expected increase or reduction in ~~systematic and specific~~ risk resulting from the ~~application~~Derivative Investments, and the procedures in place to monitor and manage the derivative exposure. For any short exposure, UTIMCO staff shall also document the basis risk and appropriate stop-loss procedures. ~~Internal control procedures to properly account and value the Funds' exposure to the derivative application shall be fully documented.~~ UTIMCO shall establish appropriate risk management procedures to monitor ~~compliance for both~~daily the risk of internally managed and of externally managed accounts operating under an Agency Agreement ~~and will take corrective action if necessary~~that utilize derivatives. Internal control procedures to properly account and value the Funds' exposure to the Derivative Investment shall be fully documented.

Additional Limitations:

~~Economic Impact and~~ Leverage: Leverage is inherent in derivatives since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the Cash markets, where in most cases the cash outlay is equal to the asset acquired, D~~d~~erivatives~~s applications~~ Investments offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional Cash market portfolio. Therefore, risk management and control processes must focus on the total risk assumed in a D~~d~~erivative~~s~~ ~~application~~Investment. Exhibits A of the Fund's Investment Policy Statements provide a limitation on the amount of leverage that can be utilized by the Funds whereby, the total Asset Class and Investment Type exposure, including the amount of derivatives exposure not collateralized by cash, may not exceed 105% (100% in the ITF) of the Asset Class and Investment Type exposures excluding the amount of derivatives exposure not collateralized by cash.~~In order to control and limit the leverage risk, each internal derivative application must specify a baseline portfolio, and risk measures such as Downside Risk (DR) will be employed to assure that the total economic impact risk of the derivative application portfolio relative to the baseline portfolio will not exceed 20% (increase or decrease) of the underlying value of the baseline portfolio. The total relative economic impact risk of each derivative application will be monitored on a daily basis by the most appropriate risk management tools for the particular derivative application.~~

Counterparty Risks: In order to limit the financial risks associated with D~~d~~erivative ~~applications~~Investments, rigorous counterparty selection criteria and netting agreements shall be required to minimize counterparty risk for over the counter (OTC) derivatives. Any counterparty in an OTC derivative transaction with the Funds must have a credit rating of at least A- (Standard and Poor's) or A3 (Moody's). All OTC derivatives ~~transactions~~ must be subject to established ISDA Netting Agreements and have full documentation of all legal obligations of the Funds ~~under the transactions~~. In the event a counterparty is downgraded below the minimum credit rating requirements stated above, UTIMCO staff will take appropriate action to protect the interests of the Funds, including availing itself of all potential remedies contained in the ISDA agreements. The net market value, net of collateral postings, of all OTC derivatives ~~positions~~ for any individual counterparty may not exceed 1% of the total market value of the Funds.

~~**Global Risk Limitations:** Notwithstanding other limitations in this Derivative Policy, no derivative transaction may be taken that would cause the aggregate risk exposure of the Funds to exceed the aggregate risk limits established by the current Investment Policy Statements of the Funds.~~

The University of Texas Investment Management Company
Derivative Investment Policy

Risk Management and Compliance:

To ensure compliance with all terms and limitations of this Policy, all internally managed and externally managed D~~d~~erivative~~s~~ Investments in accounts under Agency Agreements will be marked to market on a daily basis by the Funds' ~~external~~ custodian~~,~~ and ~~these daily reports will be~~ reviewed periodically, but no less frequently than monthly, for accuracy by the UTIMCO Risk Manager. In addition, data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.

Compliance with ~~the conditions of~~ this Policy will be monitored by the UTIMCO Chief Compliance Officer using data provided by the ~~external~~ custodian and the external risk model. ~~Data from the external risk model will be reviewed for accuracy and completeness by the UTIMCO Risk Manager.~~

Any ~~violations of the terms~~ instances of noncompliance with ~~in~~ this Policy will be reported immediately to the UTIMCO Chief Compliance Officer and the UTIMCO Chief Investment Officer, who will determine the appropriate remedy and report promptly to the Chairs of the Risk Committee, the Audit & Ethics Committee, and the UTIMCO Board.

Reporting:

On a quarterly basis, UTIMCO shall provide a comprehensive report to UTIMCO's Board and the Risk Committee. This report shall include~~of~~ all ~~approved~~ outstanding D~~d~~erivative ~~applications~~ Investments, by type, entered into during the period being reported for both internal managers and external managers operating under Agency Agreements. Asset allocation as provided in the Funds' Investment Policy Statements shall incorporate the impact of leverage associated with derivative~~s exposure based on exposures from swaps and futures and the delta equivalent exposure from options~~. For risk reporting purposes, the models used to calculate the expected profit or loss in each scenario will include the effect of delta sensitivity and other derivative sensitivity parameters as appropriate. Risk calculations will take into account leverage, correlation, and exposure parameters such as beta for equities and duration for fixed income. The UTIMCO Risk Manager will calculate risk attribution - i.e., how much of the overall risk is attributed to each Asset Class and Investment Type, including the full effect on risk of the derivatives in each. The UTIMCO Risk Manager will calculate risk attribution for each derivative investment. ~~UTIMCO shall also provide a comprehensive report of all outstanding derivatives positions established by internal managers and external managers under Agency Agreements. These reports will be provided at least on a quarterly basis to the UTIMCO Board and the Risk Committee.~~

Derivative Investment Policy Exhibit A
Glossary of Terms

Agency Agreement – A form of legal agreement that typically grants limited investment discretion to an external investment manager to act as the investment agent of the Funds but does not limit the liability of the Funds for actions taken by that agent.

~~**Application specific risk** – The portion of total risk in a derivatives application which is due to factors unique to the application as opposed to more systematic, market-related factors. For example, in an option on a specific stock, the risk associated with the specific business results of the company which issued the stock underlying the option would be application-specific risk, as opposed to the overall risk of the stock market which would be Systematic Risk.~~

~~**Baseline portfolio** – The Cash market based portfolio which will serve as the basis for calculating the relative risk level of an equivalent derivatives application.~~

Basket – A group of securities and a weighting scheme, or a proprietary index. Baskets are typically defined to achieve a certain investment goal, within certain limitations. For example, a Basket could replicate an emerging market index, excluding certain companies that UTIMCO is not permitted to hold.

Cash market - The physical market for a commodity or financial instrument.

Counterparty - The offsetting party in an exchange agreement.

~~**Delta Equivalent Value** – The delta of an option is a measure of the change in price of an option with a small change in the value of the security underlying the option as implied by the Black Scholes theory. The delta is a function of the volatility of the underlying security, the dividend rate of the underlying security, the strike price of the option, the time to maturity of the option, and the risk free interest rate. The delta then defines the value of the underlying security that would be necessary to fully hedge the option position, the delta equivalent value. For example, if an option on a stock has a notional value of $100 but would change in price by $6 when the value of the underlying stock changes by $10, then the delta equivalent value of the option is $60.~~

~~**Derivative application** – A definition of the intended use of a derivative-based position such as replication or enhancing index returns, asset allocation or completion fund strategies, and various alpha transport strategies.~~
Derivative Investment – An investment in a futures contract, forward contract, swap, and all forms of options.

~~**Derivative application portfolio** – The portfolio including derivative instruments, cash, and other cash market assets established to replicate a specified baseline portfolio.~~

~~**Downside Risk (DR)** – An established method of measuring economic exposure risk. The measure conveys the potential loss (in dollars or percent of total assets) for a particular investment position.~~

~~**Economic exposure** - The total effective exposure of a derivative position. The economic exposure is the product of the dollar value of the exposure and the market or systematic risk level of the exposure. A common method of measuring economic exposure is with risk management tools such as "value at risk."~~

Exchange traded derivatives - A D~~d~~erivative ~~instrument~~ Investment traded on an established national or international exchange. These ~~instruments~~ derivatives "settle" daily in that cash exchanges are made between the exchange and parties to the contracts consistent with the change in price of the instrument. Fulfillment of the contract is guaranteed by the exchange on which the ~~instruments~~ derivatives are traded. Examples include S&P 500 futures contracts and Goldman Sachs Commodities Index futures contracts.

Forward contract - A nonstandardized contract for the physical or electronic (through a bookkeeping entry) delivery of a commodity or financial instrument at a specified price at some point in the future. The most typical Forward contract is a forward foreign currency contract, which involves the contemplated exchange of two currencies.

Futures contract - A standardized contract for either the physical delivery of a commodity or instrument at a specified price at some point in the future, or a financial settlement derived from the change in market price of the commodity or financial instrument during the term of the contract.

ISDA Netting Agreement - The International Swaps and Derivatives Association (ISDA) is the global trade association representing participants in the privately negotiated derivatives industry, covering swaps and options across all asset classes. ISDA has produced generally accepted "Master Agreements," a 1992 Master Agreement and a 2002 Master Agreement, that are used by most counterparties in OTC derivatives ~~transactions~~. Netting agreements are terms within the applicable Master Agreement that deal with the calculation of exposure for each counterparty. These netting agreements require that exposures between counterparties will be "netted" so that payables and receivables under all existing derivatives ~~transactions~~ between two counterparties are offset in determining the net exposure between the two counterparties.

Limited Liability Entity – A legal entity created to define how assets contributed to the entity by external partners to the agreement will be managed by the manager of the entity. These entities are typically limited liability partnerships, corporations, or other such entities that limit the liability of external investors to the current value of the external investors' investment in the entity.

Option - A~~n~~ ~~instrument~~ derivative that conveys the right but not the obligation to buy or deliver the subject financial instrument at a specified price, at a specified future date.

Over the counter (OTC) derivatives - A derivative ~~instrument~~ which results from direct negotiation between a buyer and a counterparty. The terms of such ~~instruments~~ derivatives are nonstandard and are the result of specific negotiations. Settlement occurs at the negotiated termination date, although the terms may include interim cash payments under certain conditions. Examples include currency swaps and forward contracts, interest rate swaps, and collars.

Replicating Derivatives – Derivatives that are intended to replicate the return characteristics of an underlying index or any other Cash market security.

Swap - A contract whereby the parties agree to exchange cash flows of defined investment assets in amounts and times specified by the contract.

~~**Systematic risk** – The nondiversifiable risks associated with an investment in a particular asset market. For example the financial, political, and other risks associated with a portfolio of common stocks are known as "market" or systematic risks.~~

Derivative Investment Policy Exhibit B
Delegated Derivative Investments

Subject to the limitations contained in the Derivative Investment Policy, the UTIMCO Board hereby delegates to the UTIMCO Chief Executive Officer the authority to enter into the following Derivative Investments:

Delegated Derivative Investments:

1. Replicating Derivatives - Derivative Investments that replicate the return characteristics of a long exposure to an underlying index, Basket or commodity. These investments are generally futures contracts and swaps on a passive index, Basket or commodity.

2. Derivative Investments that upon their expiration would not exceed the loss of a similar investment in the cash index being referred to in the derivative contract. These investments may include swaps whereby the holder of the instrument will forgo potential upside return in exchange for downside protection or receive a multiple of a referenced return should the return of the underlying referenced index be within a certain range and may also include the selling of put options.

3. Derivative Investments whereby the maximum loss is limited to the premium paid for the Derivative Investment, regardless of notional value. The aggregate prorated annual premium of all Derivative Investments under this provision shall not exceed 25 basis points of the Fund value.

4. Futures contracts and forward contracts on foreign currency if used (i) by an external fixed income manager within its investment guidelines, (ii) for hedging purposes by an external equities manager within its investment guidelines, or (iii) to hedge existing or prospective foreign currency risk by UTIMCO staff.

5. Derivative Investments used to manage bond duration or hedge equity exposure to countries, sectors or capitalization factors within the portfolio only if subsequent to the investment the portfolio would not be net short to any one of those factors. An example of such a hedge is selling futures contracts or call options on a country or sector index, provided the manager is exposed to that country or sector.

The delegated authority set forth above should not be construed to permit UTIMCO staff to enter into Derivative Investments that are unhedged or 'naked' short positions containing unlimited loss.

Notwithstanding the delegated authority set forth above, if the notional value of a new Derivative Investment exceeds thirty-three percent (33%) of the overall Fund value, UTIMCO's Chief Investment Officer must request approval from the UTIMCO Chairman before entering into the new Derivative Investment. If the new Derivative Investment is approved by the UTIMCO Chairman and executed, UTIMCO's Chief Investment Officer shall make a presentation to the UTIMCO Board regarding the details of the Derivative Investment at its next regularly scheduled meeting.

Modeling: Each Delegated Derivative Investment must be such that it can be decomposed into one or more components, and each said component can be modeled using a model such as the CDS valuation model, Black-Scholes model, including modifications for foreign currency ("Quanto"), allowing both normal and log-normal distributions (the Black model), and modifications to handle dividends or other model approved by the Policy Committee.

Leverage: Each Delegated Derivative Investment must be modeled on a fully collateralized basis. During the course of the investment, cash collateral backing a Derivative Investment may be utilized to invest in other investments thereby creating leverage at the Fund level. This is only allowed if within the Funds' Investment Policy Statements.

6. **U. T. System Board of Regents: Approval of the amended and restated University of Texas Investment Management Company (UTIMCO) Compensation Program**

RECOMMENDATION

The University of Texas Investment Management Company Board of Directors (UTIMCO Board) and the Executive Vice Chancellor for Business Affairs recommend that the U. T. System Board of Regents (U. T. Board) approve the amended and restated UTIMCO Compensation Program (Plan) effective July 1, 2009, as set forth in congressional style on Pages 53 - 93. The Plan was approved by the UTIMCO Board on July 9, 2009, and amends and restates the UTIMCO Compensation Program that was approved by the U. T. Board on August 14, 2008 (Prior Plan). The Plan is to be effective for the Plan Year beginning July 1, 2009. Dr. Kelley will present the major changes at the Finance and Planning Committee meeting using the overview presentation on Pages 93.1 – 93.4.

BACKGROUND INFORMATION

The Prior Plan consists of two elements: base salary and an annual incentive plan. Except as noted in the discussion below, the proposed Plan maintains the structure of the Prior Plan with minor editorial changes but is intended to supersede the Prior Plan.

The UTIMCO Board engaged Mercer as its compensation consultant to review the design of the Plan and to provide advice and counsel to the UTIMCO Board and the UTIMCO Compensation Committee. The Board of Regents separately engaged Buck Consultants to provide an opinion as to the appropriateness and reasonableness of the Plan, and to ensure that the compensation arrangements for UTIMCO meet the standards of good governance. Buck Consultants' Summary of Proposed Plan Changes and Executive Report are included on Pages 93.5 - 93.42 .

Extraordinary Circumstances Provisions

Language has been inserted in Sections 3, 5.5(c) and (e), 7.3, and Appendix A, and Section 5.11 and Appendix E have been added to incorporate Extraordinary Circumstances provisions in the Plan. Definitions for "Affected Participant," "Extraordinary Nonvested Deferral Award," and "Extraordinary Nonvested Deferral Award Account" have been added to Section 8, Definition of Terms, to incorporate new terminology in the Plan related to the Extraordinary Circumstances provisions. The Extraordinary Circumstances provisions relate to the modification and/or deferral of incentive awards when certain extraordinary circumstances occur. Only certain eligible positions, designated as "Affected Participants" and included in Appendix E, are affected by the Extraordinary Circumstances provisions. Four events trigger an Extraordinary Circumstance:

- If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, the entire award would be deferred. The part of the award that would have been paid under normal circumstances would be deferred until the first anniversary of the Performance Period. See Section 5.11 (a) on Page 70.

- If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Periods are being determined are a negative 10% or below on the date the UTIMCO Board approves the award (measured as of the most recent month-end for which performance data are available), the entire award would be deferred. The part of the award that would have been paid under normal circumstances would be deferred until the first anniversary of the Performance Period. See Section 5.11 (b) on Page 71.

- If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5% at the end of such Performance Period, the Performance Incentive Awards for certain Participants will be reduced by 10% for each percentage point or portion thereof. For example, a negative return of 6.01% will result in a reduced Performance Incentive Award of 20%. Appendix A, Part II, Step 14 documents the reduction of the Performance Incentive Awards by percentage point. An award is completely eliminated when the return is a negative 14.01% and below. See Section 5.11 (c) on Page 71.

- If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20% at the end of such Performance Period, the Performance Incentive Awards for certain Participants will be increased by 10% for each percentage point or portion thereof. For example, a return of 22.01% will result in an increased Performance Incentive Award of 30%. Appendix A, Part II, Step 14 documents the increase of the Performance Incentive Awards by percentage point. An award may be doubled if the return is 29.01% or above. See Section 5.11 (d) on Page 71.

In Section 3, the language added relates to the Extraordinary Circumstances provisions and clarifies that maximum total compensation is targeted at the 90th percentile during a Performance Period when Net Returns of the Total Endowment Assets at the end of such Performance Period exceeds 20%.

<u>Award Deferrals</u>
Section 5.6 has been changed to require each Eligible Position to defer a portion of the Performance Incentive Award (ranging from 50% for the CEO to 0% for the analysts) in accordance with the deferral percentages listed on Table 1 in Appendix C rather than an automatic 30% deferral for all Eligible Positions as provided in the Prior Plan. A column

for "Percentage of Award Deferred" on Table 1 has been added. A definition for "Applicable Deferral Percentage" has been added to Section 8, Definition of Terms.

Recovery of Performance Incentive Awards
Section 5.12 has been added to the Plan to allow for recovery of Performance Incentive Awards paid to or deferred by an employee if the UTIMCO Board determines that the employee engaged in fraud or misconduct during a Performance Period.

Other
- Language has been added to Section 3 to explain that UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of the document.

- Sections 5.7 and 5.10 have been changed to allow for the vesting of a Participant's Nonvested Deferred Awards when a Participant's employment with UTIMCO terminates without cause. Definitions for "Involuntary Termination for Cause," "Cause," "Involuntary Termination," "Termination," and "Voluntary Terminations" have been added to Section 8, Definition of Terms, on Pages 76 - 78.

- Section 5.8(b)(1) has been changed to clarify that the Tables in Appendix D will be updated in subsequent periods when benchmarks for each asset class and investment type as well as threshold, target, and maximum performance standards are updated by the UTIMCO Board.

- Section 5.9(b) has been deleted. The language provided the mechanics for measuring the Intermediate Term Fund's (ITF) performance when the existence of the ITF was less than three years. Since the ITF will be in existence more than three years beginning with the Performance Period ended June 30, 2010, this language has been deleted.

- Table 1 in Appendix C on Page 86 has been added for the Performance Periods beginning after June 30, 2009, and has been updated for changes to weightings and incentive award opportunities.

- Table 2 in Appendix D on Page 88 has been added for the July 1, 2009 to June 30, 2010 Performance Period. The new benchmarks and performance standards incorporated in Table 2 were approved by the UTIMCO Board on July 9, 2009, and are now being submitted for approval by the U. T. Board. The following changes have been made to the Performance Standards for the performance period July 1, 2009 to June 30, 2010:

- Investment Grade Fixed Income and Internal Investment Grade Fixed Income: Target and Maximum standards increased to 25 basis points (bps) and 50 bps, respectively. Previously, standards were 12.5 bps target and 25 bps maximum.

- Credit-Related Fixed Income: Target and Maximum standards increased to 37.5 bps and 75 bps, respectively. Previously, standards were 25 bps target and 50 bps maximum.

- Real Estate: Target and Maximum standards increased to 50 bps and 100 bps, respectively. Previously, standards were 37.5 bps target and 75 bps maximum.

- Natural Resources: Target and Maximum standards increased to 50 bps and 100 bps, respectively. Previously, standards were 37.5 bps target and 75 bps maximum.

- Developed Country: Target and Maximum standards increased to 62.5 bps and 125 bps, respectively. Previously, standards were 35 bps target and 70 bps maximum.

- Private Real Estate: Target and Maximum standards increased to 100 bps and 200 bps, respectively. Previously, standards were 37.5 bps target and 75 bps maximum.

- Based on the methodology previously employed to develop the Performance Standards under the Plan, a change to the Target and Maximum Performance Standards for the Entity Benchmark of the Total Endowment Fund and the ITF is required. The Total Endowment Assets Target and Maximum Performance Standards would be increased to 75 bps and 150 bps, respectively. Previously, standards were 62.5 bps target and 125 bps maximum. The ITF's Target and Maximum Performance Standards would be increased to 50 and 100 bps, respectively. Previously, standards were 37.5 bps target and 75 bps maximum.

UTIMCO
COMPENSATION PROGRAM

Amended and Restated
Effective July 1, 2009~~8~~

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1. COMPENSATION PROGRAM STRUCTURE AND EFFECTIVE DATE

The UTIMCO Compensation Program (“Compensation Program” or “Plan”) consists of two elements**:** base salary and an annual incentive plan (the “Performance Incentive Plan”):

Base Salary	+	Performance Incentive	=	Total Compensation

The base salary portion of the Compensation Program sets forth a structure and guidelines for establishing and adjusting the salaries of key investment and operations staff employees. The Performance Incentive Plan portion of the Compensation Program sets forth the criteria for calculating and receiving annual incentive awards for key investment and operations staff who are eligible Participants in the Performance Incentive Plan. Provisions of the Compensation Program relating solely to the base salary portion of the Compensation Program are described in Section 4. Provisions of the Compensation Program relating solely to the Performance Incentive Plan portion of the Compensation Program are described in Section 5. Sections 1, 2, 3, 6, 7, and 8 of the Compensation Program relate to both the base salary portion and the Performance Incentive Plan portion except where otherwise specified in any such Section.

Effective Date: Except as provided in Section 7.9, this document, with an “Effective Date” of July 1, 2009~~8~~, supersedes the UTIMCO Compensation Program that was effective July 1, 2008~~7~~.

2. COMPENSATION PROGRAM OBJECTIVES

UTIMCO’s Compensation Program serves a number of objectives:

- To attract and retain key investment and operations staff of outstanding competence and ability.
- To encourage key investment staff to develop a strong commitment to the performance of the assets for which UTIMCO has been delegated investment responsibility.
- To motivate key investment staff to focus on maximizing real, long-term returns for all funds managed by UTIMCO while assuming appropriate levels of risk.
- To facilitate teamwork so that members of UTIMCO operate as a cohesive group.

3. TOTAL COMPENSATION PROGRAM PHILOSOPHY[1]

UTIMCO aspires to attract and retain high caliber employees from nationally recognized peer institutions and the investment management community in general. UTIMCO strives to provide a total compensation program that is competitive nationally, with the elements of compensation evaluated relative to comparably sized university endowments, foundations, ~~in-house managed pension funds,~~ and for-profit investment management firms with a similar investment philosophy (e.g., externally managed funds).

UTIMCO's total Compensation Program is positioned against the competitive market as follows:

- Base salaries are targeted at the market median (e.g., 50th percentile).
- Target total compensation (salary plus target Incentive Award Opportunity) is positioned at the market median.
- Maximum total compensation (salary plus maximum Incentive Award Opportunity) is targeted at the market 75th percentile if individual performance is outstanding; provided that if individual performance is outstanding during a Performance Period when endowment investment performance at the end of such Performance Period exceeds 20%, maximum total compensation (salary plus maximum Incentive Award Opportunity modified when Net Returns on Total Endowment Assets exceed 20%) for Affected Participants is targeted at the 90th percentile. (For this purpose, 0 is the lowest point and 100 is the highest.)

Although base salaries, as well as target and maximum total compensation**,** have a targeted positioning relative to market, an individual employee's actual total compensation may vary from the targeted positioning based on the individual's experience, education, knowledge, skills, and performance as well as UTIMCO's investment performance as described in this document. Except as provided in Sections 5.8 and 5.9 for purposes of determining the length of historical performance, base salaries and Incentive Award Opportunities (as well as the actual Performance Incentive Awards) are not determined based on seniority at UTIMCO.

4. BASE SALARY ADMINISTRATION

4.1. Salary Structure

(a) Base salaries are administered through a Salary Structure as set forth in this Section 4.1. Each employment position has its own salary range, with the midpoint set approximately equal to the market median base salary for employment positions with similar job content and level of responsibility

[1] This explanation of UTIMCO's "Total Compensation Program Philosophy" is not intended to modify any of the substantive provisions of this document.

(b) The salary range midpoints will be determined by the Compensation Committee based on consultation with an outside compensation consultant and with UTIMCO management. Salary range midpoints for key management, investment, and operations positions will be updated at least every three years based on a salary benchmarking study conducted by a qualified compensation consultant selected by the Compensation Committee. In years in which the Compensation Committee does not commission a formal salary survey, the base salary midpoints may be adjusted at the Compensation Committee's discretion based on expected annual salary structure adjustments as reported in one or more published compensation planning surveys.

4.2. Salary Adjustments

(a) The base salary of the CEO is determined by the Board. The base salary of the Chief Compliance Officer ("CCO") will be determined by the Compensation Committee based on the joint recommendation of the Audit and Ethics Committee and the CEO and the base salaries of the other key investment and operations employees are determined by the Compensation Committee**.** Base salaries will be set within the salary range for each employment position. An individual's base salary within the range may be higher or lower than the salary range midpoint based on his or her level of experience, education, knowledge, skills, and performance. On an exception basis, the Board may set individual base salaries outside of the salary range if an individual either substantially exceeds or does not meet all of the market criteria for a particular position.

(b) Individuals may receive an annual adjustment (increase or decrease) of their base salaries at the discretion of the Compensation Committee or, in the case of the CEO, at the discretion of the Board. Base salary adjustments, if any, will be determined based on each individual employee's experience, education, knowledge, skills, and performance; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. Employees are not guaranteed an annual salary increase.

5. PERFORMANCE INCENTIVE PLAN

5.1. Purpose of the Performance Incentive Plan

The purpose of the Performance Incentive Plan is to provide annual Performance Incentive Awards to eligible Participants based on specific objective criteria relative to UTIMCO's and each Participant's performance. The primary objectives of the Performance Incentive Plan are outlined in Section 2.

5.2. Performance Period

(a) For purposes of the Performance Incentive Plan, the "Performance Period" begins on July 1 of each year and ends the following June 30.

(b) Except as otherwise provided under Sections 5.8 and 5.9, performance for each year in the historical performance period will be measured between July 1 and the following June 30 of the applicable year for gauging achievement of the Entity and Asset Class/Investment Type Performance Goals.

5.3. Eligibility and Participation

(a) Each employee of UTIMCO will be a "Participant" in the Performance Incentive Plan for a Performance Period if (and only if) he or she is both (i) employed by UTIMCO in an employment position that is designated as an "Eligible Position" for that Performance Period and (ii) selected by the Board as eligible to participate in the Performance Incentive Plan for that Performance Period. "Eligible Positions" for a Performance Period include senior management, investment staff, and other key positions as designated by the CEO and approved by the Board as Eligible Positions for that Performance Period. An employment position that is an Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period, and each Eligible Position must be confirmed or re-confirmed by the Board as being an "Eligible Position" for the applicable Performance Period. Similarly, an employee who is eligible to participate in the Performance Incentive Plan in one Performance Period is not automatically eligible to participate in any subsequent Performance Period (notwithstanding that such employee may be employed in an Eligible Position in that subsequent Performance Period), and each employee must be designated or re-designated by the Board as being eligible to participate in the Performance Incentive Plan for the applicable Performance Period. The Board will confirm the Eligible Positions and designate the eligible employees who will become Participants for a Performance Period within the first 90 days of the Performance Period or, if later, as soon as administratively feasible after the start of the Performance Period. The Board in its discretion may also designate the employment position of a newly hired or promoted employee as an "Eligible Position" and may designate such newly hired or promoted employee as eligible to participate in the Performance Incentive Plan for a Performance Period (or remainder of a Performance Period) within 30 days of such hire or promotion or, if later, as soon as administratively feasible after such hire or promotion. A list of Eligible Positions for each Performance Period is set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the Eligible Positions for that Performance Period as soon as administratively practicable after confirmation of such Eligible Positions by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(b) An employee in an Eligible Position who has been selected by the Board to participate in the Performance Incentive Plan will become a Participant on the later of (i) the date he or she is employed in an Eligible Position or (ii) the date he or she is selected by the Board to participate in the Performance Incentive Plan; provided, however, that the Board in its discretion may designate any earlier or later date (but not earlier than such employee's date of hire and not later than such employee's date of ~~t~~Termination of employment) upon which such employee will become a Participant, and such employee will instead become a Participant on such earlier or later date. The preceding notwithstanding, except as provided below, an employee may not commence participation in the Performance Incentive Plan and first become a Participant during the last six months of any Performance Period; provided however, that the Board may select an employee to participate in the Performance Incentive Plan during the last six months of the Performance Period when compelling individual circumstances justify a shorter period of time and such circumstances are recorded in the minutes of a meeting of the Board in which event participation of the employee in the Performance Incentive Plan will begin on the participation date selected by the Board for the employee but not earlier than the employee's date of hire (assuming such employee is employed by UTIMCO in an Eligible Position on such date).

(c) An employee will cease to be a Participant in the Performance Incentive Plan on the earliest to occur of: (i) the date such employee is no longer employed in an Eligible Position; (ii) the date of ~~t~~Termination of such employee's employment with UTIMCO for any reason (including ~~v~~Voluntary Termination and ~~i~~Involuntary ~~t~~Termination, death, and ~~d~~Disability); (iii) the date of termination of the Performance Incentive Plan; (iv) the date such employee commences a leave of absence; (v) the date such employee begins participation in any other UTIMCO incentive program; (vi) the date the Board designates that such employee's employment position is not an Eligible Position (or fails to designate the employee's employment position as an Eligible Position with respect to a Performance Period); or (vii) any date designated by the Board as the date on which such employee is no longer a Participant.

(d) Except as provided in Sections 5.10(b) and (c), only individuals who are Participants on the last day of a Performance Period are eligible to receive Performance Incentive Awards under the Performance Incentive Plan for that Performance Period**.**

5.4. Performance Goals

(a) Within the first 60 days of each Performance Period, except as provided below, the CEO will recommend goals ("Performance Goals") for each Participant (other than the Performance Goals for the CEO, which are determined as provided in Section 5.4(c), and the Performance Goals for employees who are hired or promoted later during a Performance Period) subject to approval by the Compensation Committee within the first 90 days of the Performance Period. The CEO will also recommend Performance Goals for employees who are hired or promoted during the Performance Period and become Participants at the time those employees are designated as Participants (with such Performance Goals subject to confirmation by the Compensation Committee as soon as administratively feasible after such Performance Goals are recommended). If the position of the CCO is determined to be an Eligible Position and the employee in the Eligible Position has been designated by the Compensation Committee as a Participant in the Performance Incentive Plan for the Performance Period, the Performance Goals of the employee holding the position of CCO will be determined jointly by the Audit and Ethics Committee and the CEO. References to the CCO hereafter assume that the position of CCO has been determined to be an Eligible Position and the employee holding the position of CCO has been determined to be a Participant in the Performance Incentive Plan for the Performance Period. If the position of CCO has not been determined to be an Eligible Position for the Performance Period the provisions hereafter specific to the CCO have no force and effect.

(b) There are three categories of Performance Goals:

(1) Entity Performance (measured as described in Section 5.8(a))

(2) Asset Class/Investment Type Performance (measured as described in Section 5.8(b))

(3) Qualitative Performance (measured as described in Section 5.8(c))

Except for the CEO and CCO, Qualitative Performance Goals will be defined jointly by each Participant and his or her supervisor, subject to approval by the CEO and subject to final approval by the Compensation Committee. Qualitative Performance Goals for the CCO will be defined jointly by the Audit and Ethics Committee and the CEO. Qualitative Performance Goals may be established in one or more of the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources
- UTIMCO investment performance relative to the Peer Group

(c) The CEO's Performance Goals will be determined and approved by the Board.

(d) Each Performance Goal for each Eligible Position is assigned a weight for the Performance Period. The Audit and Ethics Committee and the CEO will jointly recommend to the Compensation Committee the weightings of the Performance Goals for the CCO. For each Performance Period, the Compensation Committee will approve (or adjust as it deems appropriate) the weightings of the Performance Goals at the same time it approves the Performance Goals. The weightings for each Eligible Position are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the weightings for the Eligible Positions for that Performance Period as soon as administratively practicable after such weightings are approved by the Compensation Committee for such Performance Period. Notwithstanding the identified weighting for a Performance Goal for an Eligible Position, the Compensation Committee, may adjust the weightings (up or down) for any Participant for a Performance Period when it considers the identified weighting for a Performance Goal to be inappropriate for such Participant because of his or her length of service with UTIMCO, his or her tenure in the respective Eligible Position, his or her prior work experience, or other factors as deemed appropriate by the Compensation Committee; provided that, in the case of the CCO, any such adjustment shall be based on the joint recommendation of the Audit and Ethics Committee and the CEO. The weightings for the Performance Goals for each Performance Period are subject to approval by the Board.

5.5. Incentive Award Opportunity Levels and Performance Incentive Awards

(a) At the beginning of each Performance Period, each Eligible Position is assigned an "Incentive Award Opportunity" for each Performance Goal for the Participants in that Eligible Position. The Audit and Ethics Committee and CEO will jointly recommend the Incentive Award Opportunity for the CCO to the Compensation Committee. Each Incentive Award Opportunity is determined by the Compensation Committee (and subject to approval by the Board) and is expressed as a percentage of base salary earned during the Performance Period. The Incentive Award Opportunities include a threshold, target, and maximum award for achieving commensurate levels of performance of the respective Performance Goal.

(b) Incentive Award Opportunities for each Performance Period are set forth in Table 1, which is attached as Appendix C. Table 1 will be revised each Performance Period to set forth the Incentive Award Opportunities for that Performance Period as soon as administratively practicable after approval of the Incentive Award Opportunities by the Board for such Performance Period, and such revised Table 1 will be attached as Appendix C.

(c) Actual "Performance Incentive Awards" are the amounts that are actually awarded to Participants for the respective Performance Period. Actual Performance Incentive Awards will range from zero (if a Participant performs below threshold on all Performance Goals or, pursuant to Section 5.11(c), in the case of Affected Participants, Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below a negative 14.01% at the end of such Performance Period) to the maximum Incentive Award Opportunity (if a Participant performs at or above maximum on all Performance Goals) depending on performance relative to objectives; provided that, pursuant to Section 5.11(d), actual Performance Incentive Awards for Affected Participants may exceed the maximum Incentive Award Opportunity if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period. Awards are capped at maximum levels regardless of whether a Participant exceeds the stated maximum Performance Goals.

(d) Following the end of each Performance Period, the Compensation Committee will review the actual performance of each Participant against the Performance Goals of the respective Participant and determine the Participant's level of achievement of his or her Performance Goals. The Compensation Committee will seek, and may rely on, the independent confirmation of the level of Performance Goal achievement from an external investment consultant to evaluate Entity Performance and Asset Class/Investment Type Performance. The CEO will submit a written report to the Compensation Committee, which documents the Participant's performance relative to the Participant's Performance Goals set at the beginning of the Performance Period, and upon which the Compensation Committee may rely in evaluating the Participant's performance. The Audit and Ethics Committee and the CEO will jointly determine the CCO's level of achievement relative to the CCO's Performance Goals. The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

(e) Performance Incentive Awards will be calculated for each Participant based on the percentage achieved of each Performance Goal, taking into account the weightings for the Participant's Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals and each Participant's Incentive Award Opportunity; provided that, Performance Incentive Awards of Affected Participants will be (i) increased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined exceed positive 20.0% at the end of such Performance Period and (ii) decreased if the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period, all pursuant to Section 5.11. The methodology for calculating Incentive Award Opportunities and Performance Incentive Awards is presented on Appendix A. Performance Incentive Awards will be interpolated in a linear fashion between threshold and target as well as between target and maximum.

(f) Within 150 days following the end of a Performance Period, the Compensation Committee will review all Performance Incentive Award calculations, based on the certification of its advisors, and make any changes it deems appropriate. The Compensation Committee will submit its recommendations to the Board for approval. Subject to the provisions of Section 7.1, the Board will approve Performance Incentive Awards.

(g) Following the approval of a Performance Incentive Award by the Board, each Participant will be notified as to the amount, if any, of his or her Performance Incentive Award as well as the terms, provisions, conditions, and limitations of the Nonvested Deferred Award portion of such Performance Incentive Award.

5.6. Form and Timing of Payouts of Performance Incentive Awards

Except as provided in Sections 5.11 and 5.12, Approved Performance Incentive Awards will be paid as follows:

(a) ~~Seventy percent of~~ Subject to the Applicable Deferral Percentage of an Eligible Position as documented in Table 1, which is attached as Appendix C, the Performance Incentive Award will be paid to the Participant ("Paid Performance Incentive Award") within 150 days of the completion of the Performance Period on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which the Performance Period ends, and

(b) ~~Thirty percent of~~ An amount of the Performance Incentive Award for an Eligible Position equal to the Applicable Deferral Percentage set forth on Table 1 ~~the Performance Incentive Award~~ will be treated as a "Nonvested Deferred Award" subject to the terms of Section 5.7 and paid in accordance with that Section. Table 1 will be revised each Performance Period to set forth any Applicable Deferral Percentage for each Eligible Position as soon as administratively practicable after approval of the deferral percentages by the Board for such Performance Period and such revised Table 1 will be attached as Appendix C.

5.7. Nonvested Deferred Awards

(a) For each Performance Period, a hypothetical account on UTIMCO's books ("Nonvested Deferred Award Account") will be established for each Participant. As of the date that the corresponding Paid Performance Incentive Award is paid to the Participant, each Participant's Nonvested Deferred Award for a Performance Period will be credited to his or her Nonvested Deferred Award Account established for that Performance Period; provided, however, that, in the case of any Participant ~~who is not employed by UTIMCO~~whose Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.12 on the date such Nonvested Deferred Award would be so credited to his or her Nonvested Deferred Award Account, such Nonvested Deferred Award will not be credited to such Participant's Nonvested Deferred Award Account.~~ but will instead be forfeited.~~ The Nonvested Deferred Award Accounts will be credited (or debited) monthly with an amount equal to the net investment returns of the Total Endowment Assets ("Net Returns") for the month multiplied by the balance of the respective Participant's Nonvested Deferred Award Account(s) as of the last day of the month. When the Nonvested Deferred Award is initially credited to the Nonvested Deferred Award Account, the Nonvested Deferred Award Account will be credited (or debited) with Net Returns for the month of the initial credit of a Nonvested Deferred Award, but the Net Returns will be prorated to reflect the number of days of the month during which the amounts were credited to the Nonvested Deferred Award Account. Participants are not entitled to their Nonvested Deferred Award Accounts unless and until they become vested in those accounts in accordance with Section 5.7(b).

(b) ~~Assuming and contingent upon continued employment with UTIMCO, except as provided in Section 5.10(c), a~~ Unless a Participant's Nonvested Deferred Award has been forfeited pursuant to Section 5.10(a) or Section 5.12, such Participant will become vested in, and entitled to payment of, his or her Nonvested Deferred Award Account for each respective Performance Period according to the following schedule:

(1) On the first anniversary of the last day of the Performance Period for which the Nonvested Deferred Award was earned, one third of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(2) On the second anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, one half of the amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(3) On the third anniversary of the end of the Performance Period for which the Nonvested Deferred Award was earned, the remaining amount then credited to the Participant's Nonvested Deferred Award Account for that Performance Period will be vested and paid to the Participant.

(4) Nonvested Deferred Award Accounts payable under the above paragraphs of this Section 5.7(b) will be paid on a date selected in the discretion of UTIMCO after the applicable portion of any such Nonvested Deferred Award Account becomes vested and in no event later than the last day of the calendar year in which the applicable portion of such Nonvested Deferred Award Account becomes vested.

5.8. Performance Measurement Standards

(a) Entity Performance

(1) Entity Performance for purposes of the Performance Incentive Plan is the performance of the Total Endowment Assets (weighted at 85%) and the Intermediate Term Fund (weighted at 15%).

(2) The performance of the Total Endowment Assets is measured based on the TEA's performance relative to the TEA Policy Portfolio Return (TEA benchmark).

(3) The performance of the Intermediate Term Fund will be measured based on the performance of the ITF relative to the ITF Policy Portfolio Return (ITF benchmark). The performance standards related to the Intermediate Term Fund for the Performance Period beginning July 1, 2006, are reflected in Table 2 on Appendix D. Performance standards related to the ITF for each Performance Period beginning after June 30, 2008, will be set forth on a revised table for each such Performance Period and set forth on Appendix D as soon as administratively practicable after such standards are determined. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the ITF.

(4) Except as provided in Section 5.9, performance of the Total Endowment Assets (based on the TEA benchmark) and the Intermediate Fund (based on the ITF benchmark) will be measured based on a three-year rolling historical performance of each such fund.

(b) Asset Class/Investment Type Performance

(1) Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in this Section 5.8(b). Except as provided in paragraph (2) below and Section 5.9, Asset Class/Investment Type Performance will be measured relative to the appropriate benchmark based on three-year rolling historical performance. Performance standards for each asset class and investment type will vary depending on the ability to outperform the respective benchmark. The benchmarks for each asset class and investment type, as well as threshold, target, and maximum performance standards in effect during the three-year rolling historical period, culminating with the current~~for the~~ Performance Period, ~~beginning July 1, 2006, is~~ are set forth on Table 2, which is attached as Appendix D. Table 2 will be revised, as necessary, for subsequent Performance Periods to reflect new ~~The~~ benchmarks, ~~for each asset~~

~~class and investment type~~ as well as threshold, target, and maximum performance standards, in effect during the three-year rolling historical period, culminating with the subsequent Performance Period,~~for Performance Periods beginning after June 30, 2009, will be set forth in a revised table for each such Performance Period~~ in which event, such revised table will be attached as Appendix D as soon as administratively practicable after the change in such benchmarks and standards necessitating such change are set.~~, and such revised table will be attached as Appendix D.~~

(2) Performance for private investments is calculated differently from other asset classes and investment types due to its longer investment horizon and illiquidity of assets. Except for private investments in Real Estate, performance of private investments is determined based on the performance of partnership commitments made since 2001 based on internal rates of return (IRR's) relative to the respective Venture Economics benchmarks. Performance of private investments in Real Estate will be determined based on the performance of partnership commitments made relative to a NACRIEF Custom Index benchmark.

(c) Qualitative Performance

(1) The level of a Participant's Qualitative Performance will be measured by the CEO (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), subject to approval by the Compensation Committee, based on the level of attainment (below threshold, threshold, target, or maximum) of the Participant's Qualitative Performance Goals for the Performance Period.

(2) For purposes of determining the level of attainment of each Participant's Qualitative Performance Goals for the Performance Period, the Participant will have attained below threshold level if he or she fails to successfully complete at least 50% of his or her Qualitative Performance Goals for that Performance Period, threshold level if he or she successfully completes 50% of his or her Qualitative Performance Goals for that Performance Period, target level if he or she successfully completes 75% of his or her Qualitative Performance Goals for that Performance Period, and maximum level if he or she successfully completes 100% of his or her Qualitative Performance Goals for that Performance Period (with interpolation for levels of attainment between threshold, target, and maximum).

(3) In determining the percentage of successful completion of a Participant's Qualitative Performance Goals, the CEO, and in the case of the CCO, the Audit and Ethics Committee (in the initial determination) and the Compensation Committee (in its review of the attained levels for approval) need not make such determination based solely on the number of Qualitative Performance Goals successfully

completed but may take into account the varying degrees of importance of the Qualitative Performance Goals, changes in the Participant's employment duties occurring after the Qualitative Performance Goals are determined for the Performance Period, and any other facts and circumstances determined by the CEO, and in the case of the CCO, the Audit and Ethics Committee, or Compensation Committee (as applicable) to be appropriate for consideration in evaluation of the level of achievement of the Participant's Qualitative Performance Goals for the Performance Period.

5.9. ***Modifications of Measurement Period for Measuring Entity and Asset Class/Investment Type Performance Goals***

(a) Although generally Entity Performance and most Asset Class/Investment Type Performance are measured based on three-year rolling historical performance, newly hired Participants will be phased into the Performance Incentive Plan so that Entity Performance and Asset Class/Investment Type Performance are measured over a period of time consistent with each Participant's tenure at UTIMCO. This provision ensures that a Participant is measured and rewarded over a period of time consistent with the period during which he or she influenced the performance of the entity or a particular asset class and investment type. In the Performance Period in which a Participant begins participation in the Performance Incentive Plan, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on one full year of historical performance (i.e., the performance for the Performance Period during which the Participant commenced Performance Incentive Plan participation). During a Participant's second year of Performance Incentive Plan participation, the Entity Performance and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on two full years of historical performance. In the third year of a Participant's Performance Incentive Plan participation and beyond, the Entity and Asset Class/Investment Type Performance components of the Incentive Award Opportunity will be based on the three full years of rolling historical performance.

~~(b) For purposes of measuring the Intermediate Term Fund component of Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized until the Intermediate Term Fund has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years of historical performance will be used as the measurement period. The Intermediate Term Fund was formed on February 1, 2006, and is added as a measurement of performance under the Performance Incentive Plan effective July 1, 2006. Therefore, as of June 30, 2007, the ITF had one year of historical performance that will be measured for purposes of determining Entity and Asset Class/Investment Type Performance; as of June 30, 2008, the ITF had two consecutive years of historical performance that will be measured for purposes of determining~~

~~Entity and Asset Class/Investment Type Performance; and as of June 30, 2009, and for each Performance Period thereafter, three consecutive years of historical performance will be utilized for purposes of measuring the ITF prong of Entity and Asset Class Performance.~~

(b~~c~~) For purposes of measuring Entity and Asset Class/Investment Type Performance, the three-year historical performance cycle will not be utilized for any specific asset class and investment type (or subset of an asset class and investment type) until that asset class and investment type (or subset of that asset class and investment type) has three years of historical performance as part of the Performance Incentive Plan and, until that time, the actual years (full and partial) of historical performance of that asset class and investment type (or subset of that asset class and investment type) while part of the Performance Incentive Plan will be used as the measurement period.

(~~d~~c) For purposes of measuring Entity and Asset Class/Investment Type Performance of an asset class and investment type (or subset of an asset class and investment type) that is removed from the Performance Incentive Plan prior to completion of the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed asset class and investment type was part of the Performance Incentive Plan during the then in-progress three-year historical performance cycle will be used as the measurement period.

(~~e~~d) For purposes of measuring Asset Class/Investment Type Performance for a particular Participant of an asset class and investment type (or subset of an asset class and investment type) that is removed from or added to the Participant's responsibility during the then in-progress three-year historical performance cycle, the three-year historical performance cycle will not be utilized for that removed or added asset class and investment type (or subset of an asset class and investment type), but instead the actual number of full months that the removed or added asset class and investment type was part of the Participant's responsibility during the then in-progress three-year historical performance cycle will be used as the measurement period for evaluating the Asset Class/Investment Type Performance with respect to such Participant.

5.10. Termination Provisions

(a) Except as otherwise provided in this Section 5.10, any Participant who ceases to be a Participant (either because of ~~t~~Termination of employment with UTIMCO or for any other reason stated in Section 5.3(c)) prior to the end of a Performance Period will not be eligible to receive payment of any Performance Incentive Award for that or any subsequent Performance Periods. In addition, a Participant ~~will only continue to vest in Nonvested Deferred Awards while he or she is employed with UTIMCO and~~ will forfeit any Nonvested Deferred Awards at such Participant's Voluntary ~~t~~Termination ~~of employment with UTIMCO~~or Involuntary Termination for Cause. Further, upon Involuntary Termination for reasons other than Cause, the amount in the Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs.

(b) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment position is no longer an Eligible Position (but such employee continues to be employed with UTIMCO), such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date the Participant ceases to be in an Eligible Position, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(c) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because his or her employment with UTIMCO terminates due to death or Disability, the Participant's Performance Incentive Award for the Performance Period in which ~~t~~Termination occurs, in lieu of any other Performance Incentive Award under the Performance Incentive Plan, will be paid at target on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or, if applicable, coinciding with the date of the Participant's death or Disability, and such individual will not be entitled to any Performance Incentive Awards for any Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Award Accounts of such terminated individual will vest immediately and be paid on a date selected in the discretion of UTIMCO and in no event later than the last day of the calendar year in which such termination occurs. Payments under this provision will be made to the estate or designated beneficiaries of the deceased Participant or to the disabled Participant, as applicable.

(d) If a Participant ceases to be a Participant in the Performance Incentive Plan under Section 5.3(c) prior to the end of a Performance Period because he or she commences a leave of absence, such Participant's Performance Incentive Award for the current Performance Period, if any, will be calculated on a prorated basis from the first day of the Performance Period to the Performance Measurement Date immediately preceding or coinciding with the date the Participant commences such leave of absence, and such individual will not be entitled to any Performance Incentive Awards for any

Performance Period thereafter (unless he or she again becomes a Participant in accordance with Sections 5.3(a) and (b)). All Nonvested Deferred Awards of such individual continue to vest and be paid subject to the provisions of Section 5.7(b).

(e) In the case of any Participant who ceases to be a Participant in the Performance Incentive Plan prior to the end of Performance Period and is entitled to a Performance Incentive Award or a prorated Performance Incentive Award under this Section 5.10, such Performance Incentive Award will be calculated at the time and in the manner provided in Section 5.5 and Appendix A and paid in accordance with Section 5.6 and will not be calculated or paid prior to such time.

5.11 Extraordinary Circumstances.

Notwithstanding anything in this Plan to the contrary, the timing and amount of Performance Incentive Awards of each Participant holding an Eligible Position listed on Table 3, which is attached as Appendix E (each, an "Affected Participant"), are subject to automatic adjustment as follows:

(a) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are negative at the end of such Performance Period, (i) an amount otherwise equal to the Paid Performance Incentive Award attributable to such Performance Period for each Affected Participant will be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to forfeiture in the same manner and for the same reasons as Nonvested Deferral Awards pursuant to Section 5.10(a), (ii) a separate hypothetical account for such Affected Participant will be established on UTIMCO's books ("Extraordinary Nonvested Deferral Award Account"), which will be (1) credited with such Affected Participant's Extraordinary Nonvested Deferral Award and (2) credited (or debited) monthly with Net Returns of the Total Endowment Assets on the same dates and in the same manner as applies to Nonvested Deferral Award Accounts pursuant to Section 5.7(a), and (iii) unless such Affected Participant's Extraordinary Nonvested Deferral Award has been forfeited pursuant to Section 5.10(a) or Section 5.12, such Affected Participant will become vested in, and entitled to payment of, the amount of his or her Extraordinary Nonvested Deferral Award Account on the first anniversary of the last day of such Performance Period; provided that upon the death, Disability or Involuntary Termination of an Affected Participant for reasons other than Cause, the amount in the Extraordinary Nonvested Deferral Award Account of such Affected Participant will vest immediately and be paid (to the Affected Participant or, in the case of death, to the estate or designated beneficiaries of the deceased Affected Participant) on a date selected by UTIMCO and in no event later than the last day of the calendar year in which such Termination occurs; provided, further, that nothing in this clause (a) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant;

(b) If the Net Returns of the Total Endowment Assets since the end of the Performance Period for which Performance Incentive Awards are being determined are a negative 10.00% or below (measured as of the most recent month-end for which performance data are available) on the date the Board approves the Performance Incentive Award for an Affected Participant, an amount otherwise equal to such Affected Participant's Paid Performance Incentive Award attributable to such Performance Period will also be treated as an "Extraordinary Nonvested Deferral Award" for such Affected Participant that is subject to clause (a) above; provided that nothing in this clause (b) shall affect the vesting and payment of Nonvested Deferral Awards to any Affected Participant;

(c) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be reduced by 10% for each percentage point (or portion thereof) of Net Returns below a negative 5.00%, such that the Performance Incentive Award for each such Affected Participant will be eliminated in the event of negative Net Returns below 14.00% (e.g., negative Net Returns of 5.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 10%, negative Net Returns of 6.01% will result in the Performance Incentive Award for such Affected Participant being reduced by 20%, and so forth);

(d) If the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.00% at the end of such Performance Period, the Performance Incentive Award for each Affected Participant for that Performance Period (calculated pursuant to Section 5.5 above) will be increased by 10% for each percentage point (or portion thereof) of positive Net Returns in excess of 20.00% (subject to an overall increase limit of 100%), such that the increase in Performance Incentive Award for such Affected Participant will be capped at 100% for positive performance in excess of 29.00% (e.g., positive Net Returns of 20.01% will result in the Performance Incentive Award for such Affected Participant being increased by 10%, positive Net Returns of 21.01% will result in the Performance Incentive Award for such Affected Participant being increased by 20%, and so forth); and

(e) Table 3, which is attached as Appendix E, will be revised each Performance Period to identify the Eligible Positions whose Performance Incentive Awards are subject to automatic adjustment as to timing and amount pursuant to clauses (a)-(d) above as soon as administratively practicable after approval by the Board and such revised Table 3 will be attached as Appendix E.

5.12. Recovery of Performance Incentive Awards

Notwithstanding anything in this Plan to the contrary, if the Board (in its sole discretion, but acting in good faith) determines (a) that a Participant has engaged in willful misconduct that materially disrupts, damages, impairs or interferes with the business, reputation or employee relations of UTIMCO or The University of Texas System, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods during which the Board determines such misconduct occurred, or (b) that a Participant has engaged in fraudulent misconduct that caused or contributed to a restatement of the investment results upon which such Participant's Performance Incentive Awards were determined by knowingly falsifying any financial or other certification, knowingly providing false information relied upon by others in a financial or other certification, or engaging in other fraudulent activity, or knowingly failing to report any such fraudulent misconduct by others in accordance with UTIMCO's Employee Handbook, such Participant will not be entitled to any Performance Incentive Awards for the Performance Periods for which investment results were so restated. To the extent a Participant has been awarded Performance Incentive Awards to which he or she is not entitled as a result of clause (a) or (b) above, Performance Incentive Awards shall be recovered by UTIMCO pursuant to the following remedies in the order listed: first, such Participant's Nonvested Deferred Awards and Extraordinary Nonvested Deferred Awards will be automatically forfeited; second, any Paid Performance Incentive Award not then paid to such Participant will be withheld and automatically forfeited; and third, such Participant must return to UTIMCO the remaining excess amount. Recovery of Performance Incentive Awards to which a Participant is not entitled pursuant to this Section 5.12 does not constitute a settlement of other claims that UTIMCO may have against such Participant, including as a result of the conduct giving rise to such recovery. Further, the remedies set forth above are in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

6. COMPENSATION PROGRAM AUTHORITY AND RESPONSIBILITY

6.1. Board as Plan Administrator

Except as otherwise specifically provided in this Compensation Program with respect to powers, duties, and obligations of the Compensation Committee, the Compensation Program will be administered by the Board.

6.2. Powers of Board

The Board has all powers specifically vested herein and all powers necessary or advisable to administer the Compensation Program as it determines in its discretion, including, without limitation, the authority to:

(1) Establish the conditions for the determination and payment of compensation by establishing the provisions of the Performance Incentive Plan.

(2) Select the employees who are eligible to be Participants in the Performance Incentive Plan**.**

(3) Delegate to any other person, committee, or entity any of its ministerial powers and/or duties under the Compensation Program as long as any such delegation is in writing and complies with the UTIMCO Bylaws.

7. COMPENSATION PROGRAM INTERPRETATION

7.1. Board Discretion

(a) Consistent with the provisions of the Compensation Program, the Board has the discretion to interpret the Compensation Program and may from time to time adopt such rules and regulations that it may deem advisable to carry out the Compensation Program. All decisions made by the Board in selecting the Participants approved to receive Performance Incentive Awards, including the amount thereof, and in construing the provisions of the Compensation Program, including without limitation the terms of any Performance Incentive Awards, are final and binding on all Participants.

(b) Notwithstanding any provision of the Compensation Program to the contrary and subject to the requirement that the approval of Performance Incentive Awards that will result in an increase of 5% or more in the total Performance Incentive Awards calculated using the methodology set out on Appendix A must have the prior approval of the U.T. System Board of Regents, the Board has the discretion and authority to make changes in the terms of the Compensation Program in determining a Participant's eligibility for, or amount of, a Performance Incentive Award for any Performance Period whenever it considers that circumstances have occurred during the Performance Period so as to make such changes appropriate in the opinion of the Board, provided, however, that any such change will not deprive or eliminate an award of a Participant after it has become vested and that such circumstances are recorded in the minutes of a meeting of the Board.

7.2. Duration, Amendment, and Termination

The Board has the right in its discretion to amend the Compensation Program or any portion thereof from time to time, to suspend it for a specified period, or to terminate it entirely or any portion thereof. However, if the Performance Incentive Plan is suspended or terminated during a Performance Period, Participants will receive a prorated Performance Incentive Award based on performance achieved and base salary earned through the Performance Measurement Date immediately preceding such suspension or termination. The Compensation Program will be in effect until suspension or termination by the Board; provided, however, that if the Board so determines at the time of any suspension or termination of the

Performance Incentive Plan, Nonvested Deferred Awards credited to Participants' Nonvested Deferred Award Account(s) as of the effective date of such suspension or termination will continue to be administered under the terms of the Performance Incentive Plan after any suspension or termination, except as the Board otherwise determines in its discretion at the time of such suspension or termination.

7.3. Recordkeeping and Reporting

(a) All records for the Compensation Program will be maintained by the Managing Director of Accounting, Finance, and Administration at UTIMCO. Relative performance data and calculations will be reviewed by UTIMCO's external auditor before Performance Incentive Awards are finalized and approved by the Board.

(b) UTIMCO will provide all Participants with a comprehensive report of the current value of their respective Nonvested Deferred Award and Extraordinary Nonvested Deferred Award Account Account balances, including a complete vesting status of those balances, on at least a quarterly basis.

7.4. Continued Employment

Nothing in the adoption of the Compensation Program or the awarding of Performance Incentive Awards will confer on any employee the right to continued employment with UTIMCO or affect in any way the right of UTIMCO to terminate his or her employment at any time.

7.5. Non-transferability of Awards

Except for the rights of the estate or designated beneficiaries of Participants to receive payments, as set forth herein, Performance Incentive Awards under the Performance Incentive Plan, including both the Paid Performance Incentive Award portion and the Nonvested Deferred Award portion, are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, garnishment, attachment, or levy of any kind. The preceding notwithstanding, the Compensation Program will pay any portion of a Performance Incentive Award that is or becomes vested in accordance with an order that meets the requirements of a "qualified domestic relations order" as set forth in Section 414(p) of the *Internal Revenue Code* and Section 206(d) of ERISA.

7.6. Unfunded Liability

(a) Neither the establishment of the Compensation Program, the award of any Performance Incentive Awards, nor the creation of Nonvested Deferred Awards Accounts will be deemed to create a trust. The Compensation Program will constitute an unfunded, unsecured liability of UTIMCO to make payments in accordance with the provisions of the Compensation Program. Any amounts set aside by UTIMCO to assist it in the payment of

Performance Incentive Awards or other benefits under the Compensation Program, including without limitation, amounts set aside to pay for Nonvested Deferred Awards, will be the assets of UTIMCO, and no Participant will have any security or other interest in any assets of UTIMCO or the U.T. System Board of Regents by reason of the Compensation Program.

(b) Nothing contained in the Compensation Program will be deemed to give any Participant, or any personal representative or beneficiary, any interest or title to any specific property of UTIMCO or any right against UTIMCO other than as set forth in the Compensation Program.

7.7. Compliance with State and Federal Law

No portion of the Compensation Program will be effective at any time when such portion violates an applicable state or federal law, regulation, or governmental order or directive.

7.8. Federal, State, and Local Tax and Other Deductions

All Performance Incentive Awards under the Compensation Program will be subject to any deductions (1) for tax and withholding required by federal, state, or local law at the time such tax and withholding is due (irrespective of whether such Performance Incentive Award is deferred and not payable at such time) and (2) for any and all amounts owed by the Participant to UTIMCO at the time of payment of the Performance Incentive Award. UTIMCO will not be obligated to advise an employee of the existence of the tax or the amount that UTIMCO will be required to withhold.

7.9. Prior Plan

(a) Except as provided in the following paragraphs of this Section 7.9, this Compensation Program supersedes any prior version of the Compensation Program ("Prior Plan").

(b) All nonvested deferred awards under a Prior Plan will retain the vesting schedule in effect under the Prior Plan at the time such awards were allocated to the respective Participant's account. In all other respects, as of the Effective Date, those nonvested deferred amounts will (1) be credited or debited with the Net Returns over the remaining deferral period in accordance with Section 5.7(a), and (2) be subject to the terms and conditions for Nonvested Deferred Awards under the Performance Incentive Plan as set forth in this restated document.

8. DEFINITION OF TERMS

8.1. Affected Participant is defined in Section 5.11.

8.2. Applicable Deferral Percentage means, as to each Eligible Position, the percentage set forth opposite such Eligible Position under the heading "Percentage of Award Deferred" on Table 1, which is attached as Appendix C.

~~8.1.~~8.3. Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund (such as developed country, private investments, etc.) based on the standards set forth in Section 5.8(b).

8.4. Board is the UTIMCO Board of Directors.

~~8.2.~~8.5. Cause means, as to any employee, that such employee has committed (as determined by UTIMCO in its sole discretion) any of the following: (1) a violation of any securities law or any other law, rule or regulation; (2) willful conduct that reflects negatively on the public image of UTIMCO or the U.T. System; or (3) a breach of UTIMCO's Code of Ethics.

~~8.3.~~8.6. Compensation Committee is the Compensation Committee of the UTIMCO Board of Directors.

~~8.4.~~8.7. Compensation Program is defined in Section 1.

~~8.5.~~8.8. Disability means a condition whereby a Participant either (i) is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that is expected either to result in death or to last for a continuous period of not less than 12 months or (ii) is, by reason of a medically determinable physical or mental impairment that is expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under a disability plan maintained or contributed to by UTIMCO for the benefit of eligible employees.

~~8.6.~~8.9. Effective Date is defined in Section 1.

~~8.7.~~8.10. Eligible Position is defined in Section 5.3(a).

~~8.8.~~8.11. Entity Performance represents the performance of the Total Endowment Assets and the Intermediate Term Fund (based on the measurement standards set forth in Section 5.8(a)).

8.12. Extraordinary Nonvested Deferral Award is defined in Section 5.11.

8.13. Extraordinary Nonvested Deferral Award Account is defined in Section 5.12.

~~8.9.~~8.14. Incentive Award Opportunity is defined in Section 5.5(a).

~~8.10.~~8.15. Intermediate Term Fund or ITF is The University of Texas System ("U.T. System") Intermediate Term Fund established by the U.T. System Board of Regents as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by the U.T. System institutions and U.T. System Administration. Performance of the Intermediate Term Fund is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Intermediate Term Fund.

8.16. **Intermediate Term Fund Policy Portfolio Return** is the benchmark return for the Intermediate Term Fund policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Intermediate Term Fund policy portfolio for the Performance Period.

~~8.11.~~8.17. **Involuntary Termination** means, as to any person the Termination of such person's employment with UTIMCO wholly initiated by UTIMCO and not due to such person's implicit or explicit request, at a time when such person is otherwise willing and able to continue to perform services for UTIMCO.

~~8.12.~~8.18. **Net Returns** is the investment performance return of the Total Endowment Assets, net of fees. Net of fees factors in all administrative and other fees for managing the Total Endowment Assets. The net investment return will be calculated as follows:

$$\frac{\text{Permanent University Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{Permanent University Fund Net Investment Return}$$

Plus

$$\frac{\text{General Endowment Fund Beginning Net Asset Value}}{\text{Total Endowment Beginning Net Asset Value}} \times \text{General Endowment Fund Net Investment Return}$$

~~8.13.~~8.19. **Nonvested Deferred Award** is defined in Section 5.6(b).

~~8.14.~~8.20. **Nonvested Deferred Award Account** is defined in Section 5.7(a).

~~8.15.~~8.21. **Paid Performance Incentive Award** is defined in Section 5.6(a).

~~8.16.~~8.22. **Participant** is defined in Section 5.3(a).

~~8.17.~~8.23. **Peer Group** is a peer group of endowment funds maintained by the Board's external investment advisor that is comprised of all endowment funds with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each of the three immediately preceding Performance Periods as set forth on Appendix B; provided, however, that the Total Endowment Assets are excluded from the Peer Group. The Peer Group will be updated from time to time as deemed appropriate by the Board, and Appendix B will be amended accordingly.

~~8.18.~~8.24. **Performance Goals** are defined in Section 5.4.

~~8.19.~~8.25. **Performance Incentive Award** is the component of a Participant's total compensation that is based on specific performance goals and awarded as current income or deferred at the end of a Performance Period in accordance with Section 5 and Appendix A.

~~8.20.~~8.26. **Performance Incentive Plan** is as defined in Section 1 and described more fully in Section 5.

~~8.21.~~8.27. **Performance Measurement Date** is the close of the last business day of the month.

~~8.22.~~8.28. **Performance Period** is defined in Section 5.2.

~~8.23.~~8.29. **Prior Plan** is defined in Section 7.9.

~~8.24.~~8.30. **Salary Structure** is described in Section 4.1.

8.31. **Termination** means, as to any person, a complete severance of the relationship of employer and employee between UTIMCO and such person.

~~8.25.~~8.32. **Total Endowment Assets or TEA** means the combination of the Permanent University Fund and the General Endowment Fund, but does not include any other endowment funds monitored by UTIMCO such as the Separately Invested Fund. Performance of the Total Endowment Assets is measured net of fees, meaning performance is measured after factoring in all administrative and other fees incurred for managing the Total Endowment Assets.

8.33. **Total Endowment Assets Policy Portfolio Return** is the benchmark return for the Total Endowment Assets policy portfolio and is calculated by summing the neutrally weighted index returns (percentage weight for each asset class and investment type multiplied by the benchmark return for the asset class and investment type) for the various asset classes and investment types in the Total Endowment Assets policy portfolio for the Performance Period.

8.34. **Voluntary Terminations** means, as to any person, the Termination of such person's employment with UTIMCO not resulting from an Involuntary Termination or by reason of Death or disability.

Appendix A

Performance Incentive Award Methodology (for Performance Periods beginning on or after July 1, 2008)

I. Determine "Incentive Award Opportunities" for Each Participant[2]

Step 1. Identify the weights to be allocated to each of the three Performance Goals for each Participant's Eligible Position. The weights vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. The total of the weights ascribed to the three Performance Goals must add up to 100% for each Participant. For example, Table 1 on Appendix C may reflect for a Performance Period for the CEO that the weight allocated to the Entity Performance Goal is 60%, the weight allocated to the Asset Class/Investment Type Performance Goal is 0%, and the weight allocated to the Individual Performance Goal is 40%.

Step 2. Identify the percentage of base salary for the Participant's Eligible Position that determines the Performance Incentive Award for achievement of the Threshold, Target, and Maximum levels of the Performance Goals. The percentages vary for each Eligible Position each Performance Period and are set forth in Table 1 on Appendix C for the applicable Performance Period. For example, Table 1 on Appendix C may show that for a Performance Period the applicable percentages for determining the Performance Incentive Award for the CEO are 50% of his or her base salary for achievement of Threshold level performance of all three Performance Goals, 100% of his or her base salary for achievement of Target level performance of all three Performance Goals, and 200% of his or her base salary for achievement of Maximum level performance of all three Performance Goals.

Step 3**.** Calculate the dollar amount of the potential Threshold, Target, and Maximum awards (the "Incentive Award Opportunities") for each Participant by multiplying the Participant's base salary for the Performance Period by the applicable percentage (from Step #2 above). For example, assuming the CEO has a base salary of $575,000 for a Performance Period, based on the assumed percentages set forth in Step #2 above, the CEO will be eligible for a total award of $287,500 (50% of his or her base salary) if he or she achieves Threshold level performance of all three Performance Goals, $575,000 (100% of his or her base salary) if he or she achieves

[2] These Incentive Award Opportunities represent amounts that each Participant will be awarded if he or she achieves his or her Performance Goals at varying levels and are calculated at the beginning of each Performance Period or, if later, the date such Participant commences participation in the Performance Incentive Plan**.**

Target level performance of all three Performance Goals, and $1,150,000 (200% of his or her base salary) if he or she achieves Maximum level performance of all three Performance Goals.

Step 4. Because a Participant may achieve different levels of performance in different Performance Goals and be eligible for different levels of awards for that achievement (e.g., he or she may achieve Target performance in the Entity Performance Goal and be eligible to receive a Target award for that goal and achieve Maximum performance in the Qualitative Performance Goal and be eligible to receive a Maximum award for that Performance Goal), it is necessary to determine the Incentive Award Opportunity of the Threshold, Target, and Maximum award for each separate Performance Goal (and, because achievement of the Entity Performance Goal is determined in part by achievement of the Total Endowment Assets and in part by achievement of the Intermediate Term Fund, a Threshold, Target, and Maximum Incentive Award Opportunity separately for the TEA and the ITF must be determined). This is done by multiplying the dollar amount of the Threshold, Target, and Maximum awards for the performance of all three Performance Goals calculated in Step #3 above for the Participant by the weight allocated for that Participant to the particular Performance Goal (and, further, by multiplying the Incentive Award Opportunity for the Entity Performance by the weight ascribed to achievement of the Total Endowment Assets (85%) and by the weight ascribed to achievement of the Intermediate Term Fund (15%)).

Step 5. After Steps #3 and #4 above are performed for each of the three levels of performance for each of the three Performance Goals, there will be 12 different Incentive Award Opportunities for each Participant. For example, for the CEO (based on an assumed base salary of $575,000, the assumed weights for the Performance Goals set forth in Step #1 above, and the assumed percentages of base salary for the awards set forth in Step #2 above), the 12 different Incentive Award Opportunities for achievement of the Performance Goals for the Performance Period are as follows:

Incentive Award Opportunities for CEO
(based on assumed base salary of $575,000)

Performance Goal	Weight	Threshold Level Award	Target Level Award	Maximum Level Award
Entity (TEA v. TEA Policy Portfolio Return	.51% (.85 x .60)	$146,625	$293,250	$586,500
Entity (ITF v. ITF Policy Portfolio Return)	9.0% (.15 x .60)	$25,875	$51,750	$103,500
Asset Class/Investment Type	0%	$0	$0	$0
Qualitative	40%	$115,000	$230,000	$460,000
Total	100%	$287,500 (50% of salary)	$575,000 (100% of salary)	$1,150,000 (200% of salary)

II. Calculate Performance Incentive Award for Each Participant[3]

Step 6. Identify the achievement percentiles or achieved basis points that divide the Threshold, Target, and Maximum levels for each Performance Goal. These divisions for the level of achievement of the Entity and Asset Class/Investment Type Performance Goals are set forth in the table for the applicable Performance Period as set forth on Appendix D**.** The measurement for the level of achievement (i.e., Threshold, Target, or Maximum) for the Qualitative Performance Goal is initially determined each Performance Period by the Participant's supervisor, if any, (in the case of the CCO, jointly by the Audit and Ethics Committee and the CEO), and then is approved (or adjusted) by the Compensation Committee as it deems appropriate in its discretion. If the Participant has no supervisor, the measurement for the level of achievement for the Qualitative Performance Goal is determined each Performance Period by the Compensation Committee**.** The Board will determine the CEO's level of achievement relative to the CEO's Performance Goals.

Step 7. Determine the percentile or basis points achieved for each Performance Goal for each Participant using the standards set forth in Sections 5.5 and 5.8 of the Compensation Program, as modified in Section 5.9. Determine the level of achievement of each Participant's Qualitative Performance Goal.

Step 8. Calculate the amount of each Participant's award attributable to each Performance Goal by identifying the Incentive Award Opportunity amount for each Performance Goal (e.g., as assumed and set forth for the CEO in the table in Step #5 above) commensurate with the Participant's level of achievement for that Performance Goal (determined in Steps #6 and #7

[3] In the event that the Net Returns of the Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 14.0% at the end of such Performance Period, steps 6 through 14 need not be followed with respect to Affected Participants when calculating Performance Incentive Awards for that Performance Period.

above). An award for achievement percentiles in between the stated Threshold, Target, and Maximum levels is determined by linear interpolation. For example, if +100 bps of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal has been achieved, that +100 bps is between the Target (+75bps) and the Maximum (+150bps) levels, so to determine the amount of the award attributable to +100 bps of achievement of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, perform the following steps: (i) subtract the difference between the dollar amounts of the Target and Maximum Incentive Award Opportunities for the Participant (e.g., for the CEO, as illustrated in the table in Step #5, the difference is $293,250 ($586,500-$293,250)); (ii) divide 25 (the bps difference between the Target level of +75 bps and the attained level of +100 bps) by 75 (the bps difference between the Target level and Maximum level) to get the fraction 25/75 to determine the pro rata portion of the difference between Target and Maximum actually achieved; (iii) multiply the amount determined in the preceding Step (i) by the fraction determined in the preceding Step (ii) ($293,250 x 25/75 = $97,750); and (iv) add the amount determined in the preceding Step (iii) to the Target Incentive Award Opportunity for the Participant to get the actual award for the Participant attributable to each Performance Goal ($97,750 + $293,250 = $391,000).

Step 9. In determining the Asset Class/Investment Type Performance portion of an award for a Performance Period for each Participant who is responsible for more than one asset class and investment type during that Performance Period, first, the Participant's attained level of achievement (i.e., Below Threshold, Threshold, Target, or Maximum) is determined for each asset class and investment type for which such Participant is responsible by comparing the actual performance to the appropriate benchmark for the asset class and investment type; then, the award is calculated for the determined level of achievement for each such asset class and investment type by multiplying the award commensurate with the level of achievement by the weight assigned to the Asset Class/Investment Type Performance Goal for such Participant; then, the various asset classes and investment types for which the Participant is responsible are assigned a pro rata weight (i.e., the assets in such asset class and investment type relative to the total assets under such Participant's responsibility); then, each determined award for a separate asset class and investment type is multiplied by the weight for that asset class and investment type; and, finally, the weighted awards are totaled to produce the Participant's award attributable to Asset Class/Investment Type Performance.

Step 10. In determining the award attributable to the Entity Performance Goal, achievement of the Total Endowment Assets portion of the Entity Performance Goal (and the commensurate award) is weighted at 85% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant), and achievement of the Intermediate Term Fund portion of the Entity Performance Goal (and commensurate award) is weighted at 15% (and then multiplied by the weight assigned to the Entity Performance Goal for the Participant). For example, assuming a base salary of $575,000, if the CEO achieved the Target level (+75 bps) of the TEA benchmark portion of the Total Endowment Assets portion of the Entity Performance Goal, and achieved the Maximum level (+100 bps) of the Intermediate Term Fund portion of the Entity Performance Goal, he or she would have earned an award of $396,750 for his or her level of achievement of the Entity Performance Goal as follows: $293,250 for Target level of achievement of the TEA benchmark portion of the TEA portion of Entity Performance Goal (.85 x .60 x $575,000) plus $103,500 for Maximum level of achievement of the ITF portion of the Entity Performance Goal (.15 x .60 x $1,150,000).

Step 11. No award is given for an achievement percentile below Threshold, and no award above the Maximum award is given for an achievement percentile above the Maximum level.

Step 12. Subject to any applicable adjustment in Step #13 below, add the awards determined in Steps #8, #9, and #10 above for each Performance Goal (as modified by Step #11) together to determine the total amount of the Participant's Performance Incentive Award for the Performance Period.

Step 13. In the case of any Participant who becomes a Participant in the Performance Incentive Plan after the first day of the applicable Performance Period, such Participant's Performance Incentive Award (determined in Step #12) will be prorated to reflect the actual portion of the Performance Period in which he or she was a Participant. In the case of a Participant who ceases to be a Participant prior to the end of a Performance Period, his or her entitlement to any Performance Incentive Award is determined under Section 5.10 and, in the case of such entitlement, such Participant's Performance Incentive Award, if any, will be prorated and adjusted as provided in Section 5.10.

Step 14. In the case of any Affected Participant, such Affected Participant's Performance Incentive Award calculated pursuant to Steps #1 through #13 above shall be multiplied by the appropriate factor set forth in the following charges:

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are below negative 5.0% at the end of such Performance Period:

Actual Negative Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
5.01 - 6.00	.9
6.01 - 7.00	.8
7.01 - 8.00	.7
8.01 - 9.00	.6
9.01 - 10.00	.5
10.01 - 11.00	.4
11.01 - 12.00	.3
12.01 - 13.00	.2
13.01 - 14.00	.1
14.01 and Below	.0

When Net Returns of Total Endowment Assets during the Performance Period for which Performance Incentive Awards are being determined are in excess of positive 20.0% at the end of such Performance Period:

Actual Positive Net Returns (Rounded to Nearest One-Hundredth Decimal)	Factor
20.01 - 21.00	1.1
21.01 - 22.00	1.2
22.01 - 23.00	1.3
23.01 - 24.00	1.4
24.01 - 25.00	1.5
25.01 - 26.00	1.6
26.01 - 27.00	1.7
27.01 - 28.00	1.8
28.01 - 29.00	1.9
29.01 and Above	2.0

SUBJECT TO CHANGE

Appendix B

UTIMCO Peer Group

- Columbia University
- Cornell University
- Emory University
- Harvard University
- Massachusetts Institute of Technology
- Northwestern University
- Princeton University
- Rice University
- Stanford University
- The Duke Endowment
- University of California
- University of Chicago
- University of Michigan
- University of Notre Dame
- University of Pennsylvania
- University of Virginia Investment Management Company
- Vanderbilt University
- Washington University in St. Louis
- Yale University

Source: Cambridge Associates. Represents endowment funds (excluding the Total Endowment Assets) with more than 10 full-time employee positions, allocations to alternative assets in excess of 40%, and with assets greater than $2.5 billion, all to be determined as of the last day of each fiscal year end June 2006, 2007, 2008.

Appendix C

Eligible Positions
Weightings
Incentive Award Opportunities for each Eligible Position
(for each Performance Period)

~~TABLE 1 (For the Performance Periods beginning after June 30, 2008)~~

Eligible Position	Weighting: Entity	Weighting: Asset Class/ Investment Type	Weighting: Individual	Incentive Award Opportunity (% of Salary): < Threshold	Threshold	Target	Maximum
		Investment Professionals					
CEO & Chief Investment Officer	60%	0%	40%	0%	50%	100%	200%
President & Deputy CIO	30%	50%	20%	0%	45%	90%	190%
Managing Director	25%	50%	25%	0%	45%	90%	190%
Senior Director, Investment	20%	40%	40%	0%	25%	50%	100%
Senior Portfolio Manager	20%	40%	40%	0%	25%	50%	100%
Portfolio Manager	20%	40%	40%	0%	25%	50%	100%
~~Director, Investment~~	~~20%~~	~~40%~~	~~40%~~	~~0%~~	~~20%~~	~~40%~~	~~80%~~
Director, Risk Management	30%	0%	70%	0%	20%	40%	80%
Associate and Senior Associate, Investment	15%	30%	55%	0%	18%	35%	70%
Associate, Risk Management	30%	0%	70%	0%	18%	35%	70%
Analyst and Senior Analyst, Investment	10%	20%	70%	0%	13%	25%	50%
Analyst, Risk Management	30%	0%	70%	0%	13%	25%	50%
		Operations/Support Professionals					
Senior Managing Director	20%	0%	80%	0%	30%	60%	120%
Managing Director	20%	0%	80%	0%	25%	50%	100%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	25%	50%	100%
Manager	20%	0%	80%	0%	20%	40%	80%

TABLE 1 (For the Performance Periods beginning after June 30, 2009)

Eligible Position	Weighting: Entity	Weighting: Asset Class/ Investment Type	Weighting: Individual	Incentive Award Opportunity (% of Salary): < Threshold	Threshold	Target	Maximum	Percentage of Award Deferred
		Investment Professionals						
CEO & Chief Investment Officer	60%	0%	40%	0%	0%	100%	200%	50%
President & Deputy CIO	40%	40%	20%	0%	0%	95%	190%	50%
Managing Director	30%	40%	30%	0%	0%	85%	170%	40%
Managing Director - Private Investments	30%	30%	40%	0%	0%	85%	170%	40%
Senior Director, Investments	25%	35%	40%	0%	0%	60%	120%	35%
Senior Portfolio Manager	20%	40%	40%	0%	0%	60%	120%	35%
Senior Director, Risk Management	30%	0%	70%	0%	0%	50%	100%	35%
Portfolio Manager	20%	40%	40%	0%	0%	50%	100%	30%
Director, Investments	20%	40%	40%	0%	0%	50%	100%	30%
Director - Private Investments	20%	30%	50%	0%	0%	50%	100%	30%
Director, Risk Management	30%	0%	70%	0%	0%	40%	80%	30%
Senior Associate, Investments	15%	35%	50%	0%	0%	40%	80%	20%
Associate, Investments	15%	30%	55%	0%	0%	35%	70%	15%
Associate - Private Investments	15%	20%	65%	0%	0%	35%	70%	15%
Associate, Risk Management	30%	0%	70%	0%	0%	35%	70%	15%
Senior Analyst, Investments	10%	20%	70%	0%	0%	30%	60%	0%
Analyst, Investments	10%	20%	70%	0%	0%	25%	50%	0%
Analyst, Risk Management	30%	0%	70%	0%	0%	25%	50%	0%
	Operations/Support Professionals							
Senior Managing Director	20%	0%	80%	0%	0%	60%	120%	40%
Managing Director	20%	0%	80%	0%	0%	50%	100%	30%
General Counsel & Chief Compliance Officer	0%	0%	100%	0%	0%	50%	100%	30%
Manager	20%	0%	80%	0%	0%	40%	80%	25%

Appendix D

Benchmarks for Asset Class/Investment Type
Threshold, Target, and Maximum Performance Standards
(for Performance Periods beginning on or after July 1, 2006)

Performance Standards for Intermediate Term Fund
(for Performance Periods beginning on or after July 1, 2006)

~~TABLE 2 (7/1/06 through 6/30/07)~~

		Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF			
Asset Class	Benchmark	(% of Portfolio)	(% of Portfolio)	Threshold	Target	Maximum
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>$1 B assets)	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
~~Absolute Return Hedge Funds~~	~~MSCI Investable Hedge Fund Index~~	~~15%~~	~~12.5%~~	~~+0 bps~~	~~+50 bps~~	~~+100 bps~~
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

UPDATED TABLE 2 (7/1/07 through 6/30/08)

		Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF			
Asset Class	Benchmark	(% of Portfolio)	(% of Portfolio)	Threshold	Target	Maximum
Entity: Peer Group (Total Endowment Funds)	Peer group (Endowments w/>$1 B assets)	n/a	n/a	40th %ile	60th %ile	75th %ile
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+100 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+32.5 bps	+65 bps
US Public Equity	Russell 3000 Index	20%	15%	+0 bps	+31 bps	+62 bps
Non-US Developed Equity	MSCI EAFE Index with net dividends	10%	5%	+0 bps	+37.5 bps	+75 bps
Emerging Markets Equity	MSCI Emerging Markets Index with net dividends	7%	5%	+0 bps	+75 bps	+150 bps
Directional Hedge Funds	MSCI Investable Hedge Fund Index	10%	12.5%	+0 bps	+65 bps	+130 bps
Absolute Return Hedge Funds	MSCI Investable Hedge Fund Index	15%	12.5%	+0 bps	+50 bps	+100 bps
Private Equity	Custom Benchmark Created from Venture Economics Database	11%	0%	+0 bps	+103.5 bps	+207 bps
Venture Capital	Custom Benchmark Created from Venture Economics Database	4%	0%	+0 bps	+103.5 bps	+207 bps
REITS	Dow Jones Wilshire Real Estate Securities Index	5%	10%	+0 bps	+37.5 bps	+75 bps
Commodities	Combination index: 66.7% Goldman Sachs Commodity Index minus .5% plus 33.3% DJ-AIG Commodity Index	3%	5%	+0 bps	+17.5 bps	+35 bps
TIPS	Lehman Brothers US TIPS Index	5%	10%	+0 bps	+2.5 bps	+5 bps
Fixed Income	Lehman Brothers Aggregate Bond Index	10%	25%	+0 bps	+12.5 bps	+25 bps
Internal Credit	Credit Related Composite Index	0%	0%	+0 bps	+12.5 bps	+25 bps
Cash	90 day t-bills	0%	0%	+0 bps	+0 bps	+0 bps

UPDATED TABLE 2 (7/1/08 through12/31/08)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment Assets (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+100 bps
Investment Grade Fixed Income	Lehman Brothers Global Aggregate Index	7.0%	33.0%	+0 bps	+12.5 bps	+25 bps
Credit-Related Fixed Income	Lehman Brothers Global High-Yield Index	1.2%	2.0%	+0 bps	+25 bps	+50 bps
Real Estate	FTSE EPRA/NAREIT Global Index	5.5%	10.0%	+0 bps	+37.5 bps	+75 bps
Natural Resources	Combination index - 50% Dow Jones-AIG Commodities Index + 50% MSCI World Natural Resources Index	5.3%	5.0%	+0 bps	+37.5 bps	+75 bps
Developed Country Equity	MSCI World Index with net dividends	19.5%	20.0%	+0 bps	+35 bps	+70 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	10.5%	5.0%	+0 bps	+75 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	MSCI Investable Hedge Fund Index	33.0%	25.0%	+0 bps	+125 bps	+250 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	17.0%	0%	+0 bps	+100 bps	+200 bps
Private Investments Real Estate	NACREIF Custom Index	1.0%	0%	+0 bps	+37.5 bps	+75 bps
Specific asset class benchmark:						
Internal Investment Grade Fixed Income	US Lehman Aggregate			+0 bps	+12.5 bps	+25 bps

UPDATED TABLE 2 (1/1/09 through 6/30/09)

Asset Class/Investment Type	Benchmark	Policy Portfolio Weights: Total Endowment (% of Portfolio)	Policy Portfolio Weights: ITF (% of Portfolio)	Performance Standards: Threshold	Performance Standards: Target	Performance Standards: Maximum
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+62.5 bps	+125 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+37.5 bps	+75 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.0%	33.0%	+0 bps	+12.5 bps	+25 bps
Credit-Related Fixed Income	Barclays Capital Global High-Yield Index	1.2%	2.0%	+0 bps	+25 bps	+50 bps
Real Estate	FTSE EPRA/NAREIT Global Index	5.5%	10.0%	+0 bps	+37.5 bps	+75 bps
Natural Resources	Combination index - 50% Dow Jones-AIG Commodities Index + 50% MSCI World Natural Resources Index	5.3%	5.0%	+0 bps	+37.5 bps	+75 bps
Developed Country Equity	MSCI World Index with net dividends	19.5%	20.0%	+0 bps	+35 bps	+70 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	10.5%	5.0%	+0 bps	+75 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	33.0%	25.0%	+0 bps	+75 bps	+150 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	17.0%	0%	+0 bps	+100 bps	+200 bps
Private Investments Real Estate	NACRIEF Custom Index	1.0%	0%	+0 bps	+37.5 bps	+75 bps
Specific asset class benchmark:						
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+12.5 bps	+25 bps

UPDATED TABLE 2 (7/1/09 through 6/30/10)

		Policy Portfolio Weights		Performance Standards		
		Total Endowment Assets	ITF			
Asset Class/Investment Type	**Benchmark**	**(% of Portfolio)**	**(% of Portfolio)**	**Threshold**	**Target**	**Maximum**
Entity: Benchmark (Total Endowment Funds)	Policy Portfolio	n/a	n/a	+0 bps	+75 bps	+150 bps
Entity: Benchmark (Intermediate Term Fund)	Policy Portfolio	n/a	n/a	+0 bps	+50 bps	+100 bps
Investment Grade Fixed Income	Barclays Capital Global Aggregate Index	7.5%	30.0%	+0 bps	+25 bps	+50 bps
Real Estate	FTSE EPRA/NAREIT Developed Index	3.5%	5.0%	+0 bps	+50 bps	+100 bps
Natural Resources	50% Dow Jones-UBS Commodity Total Return Index and 50% MSCI World Natural Resources Index	5.5%	7.5%	+0 bps	+50 bps	+100 bps
Developed Country Equity	MSCI World Index with net dividends	19.0%	15.0%	+0 bps	+62.5 bps	+125 bps
Emerging Markets Equity	MSCI Emerging Markets with net dividends	13.0%	7.5%	+0 bps	+75 bps	+150 bps
Hedge Funds (Less Correlated & Constrained Investments)	Hedge Fund Research Indices Fund of Funds Composite Index	30.0%	35.0%	+0 bps	+75 bps	+150 bps
Private Investments (excludes Real Estate)	Venture Economics Custom Index	20.5%	0%	+0 bps	+100 bps	+200 bps
Private Investments Real Estate	NACREIF Custom Index	1.0%	0%	+0 bps	+100 bps	+200 bps
Specific asset class benchmarks:						
Credit-Related Fixed Income	Barclays Capital Global High Yield Index			+0 bps	+37.5 bps	+75 bps
Internal Investment Grade Fixed Income	US Barclays Capital Aggregate			+0 bps	+25 bps	+50 bps

Appendix E

Eligible Positions of Affected Participants

TABLE 3 (7/1/09 through 6/30/10)

Eligible Position
Investment Professionals
CEO & Chief Investment Officer
President & Deputy CIO
Managing Director
Managing Director - Private Investments
Senior Director, Investment
Senior Portfolio Manager
Senior Director, Risk Management
Portfolio Manager
Director, Investment
Director - Private Investments
Director, Risk Management
Operations/Support Professionals
Senior Managing Director
Managing Director
General Counsel & Chief Compliance Officer
Manager

UTIMCO Compensation Program
Proposed Changes for 2009-2010

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U. T. System Board of Regents' Meeting

Dr. Scott Kelley

August 19, 2009

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THE UNIVERSITY of TEXAS SYSTEM

Nine Universities. Six Health Institutions. Unlimited Possibilities.

UTIMCO Compensation Program Proposed Changes for 2009-2010

- UTIMCO is recommending changes to the Compensation Program effective July 1, 2009. The Performance Period for the Compensation Program begins on July 1 of each year and ends the following June 30.

- Extraordinary circumstances ***during*** the Performance Period (Section 5.11)

  - If the net returns of the PUF and GEF ***are negative*** at the end of a Performance Period, any incentive awards earned during the Period would be automatically ***deferred for one year***.

  - If the net returns of the PUF and GEF ***are below negative 5%*** at the end of a Performance Period, any incentive awards earned during the Period would be ***reduced by 10% for each additional percentage point*** of negative net returns. If net returns are below negative 14%, any incentive awards earned during the Period would be eliminated.

  - If the net returns of the PUF and GEF ***are above positive 20%*** at the end of a Performance Period, any incentive awards earned during the Period would be ***increased by 10% for each additional percentage point*** of positive net returns. If net returns are above positive 29%, any incentive awards earned during the Period would be increased by 100%.

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UTIMCO Compensation Program Proposed Changes for 2009-2010

- Extraordinary circumstances ***after*** the Performance Period (Section 5.11)
  - If the net returns of the PUF and GEF ***are below negative 10%*** after the end of a Performance Period and prior to payout, any incentive awards earned during the Period would be automatically ***deferred for one year***.

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- The extraordinary circumstances provisions only apply to director level and higher eligible positions. Analyst and associate positions are not affected.
- Award deferrals (Section 5.6) are being changed from a 30% deferral for all eligible positions to a range of 0% (analyst) up to 50% (CEO, president). The deferred amounts will continue to vest in equal increments over three years.
- A new provision (Section 5.12) has been added for the recovery of incentive compensation if an employee engages in fraud or misconduct related to UTIMCO's financial statements, investment results or calculation of incentive compensation.

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UTIMCO Compensation Program Proposed Changes for 2009-2010

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- Involuntary terminations (Sections 5.7 and 5.11) without cause by UTIMCO will allow for the immediate vesting of any deferred awards. Voluntary terminations and terminations for cause will continue to result in a forfeit of deferred awards.
- Table 1 in Appendix C has been updated for the Performance Periods beginning after June 30, 2009 for changes to weightings, incentive award opportunities and deferrals. The Threshold incentive award (as a percentage of salary) has been changed to 0% for all eligible positions.
- Table 2 in Appendix D has been updated for the July 1, 2009 to June 30, 2010 Performance Period to reflect the proposed changes to benchmarks and performance standards.

Proposed Changes to 2009-2010 UTIMCO Incentive Plan

Recommended Changes	Comments
Extraordinary Circumstances Provisions: New provisions relative to the modification and/or deferral of awards when any one of the following extraordinary events occurs for certain eligible positions. 1. If the net returns of the Total Endowment Assets are *negative at the end of* the period, the entire award would be deferred for one year. 2. If the net returns of the Total Endowment Asset *since the end of* the performance period are negative by 10% or more at the date the awards are approved, the entire award would be deferred for one year. 3. If the net returns of the Total Endowment Asset during the period are negative by more than 5% at the end of the period , awards will be reduced by 10% for each one percent or portion thereof below 5%. 4. If the net returns of the Total Endowment Asset during the period are positive by more than 20% at the end of the period, awards will be increased by 10% for each one percent or portion thereof above 20%. Maximum compensation is targeted at the 90th percentile of the market during the performance period when performance exceeds 20%.	Buck agrees that these changes are appropriate and consistent with market practices. - Deferrals in the event of negative performance will help address potential legislative concerns and public perception. - Reducing awards for negative performance below a specified amount provides a balance of relative and absolute performance. - Providing additional upside for positive performance above a specified amount provides appropriate symmetry in award calculation. Some additional observations: - Tying pay for superior performance to market data at the 90th percentile may present challenges since available survey data often lags the measurement period. We suggest that this be replaced with a more general statement. - A cap for positive performance set at a level above 20% will help with plan optics. For example, any return above 30% would result in a flat rate for performance beyond that level. - Should there be a provision to address deferrals in the event of two or more consecutive years of negative performance (e.g., pay out 50% and roll the rest until performance turns positive)?
Award Deferrals: Mandatory deferral requirements were changed from 30% for all eligible positions to a range of 50% (for the CEO) to 0% (for analysts).	Buck agrees that this change is appropriate and consistent with market practices.
Recovery of Performance Incentive Awards: Incentive awards can be recovered if the Board determines that the employee engaged in fraud of misconduct during the performance period.	Buck agrees that this change is appropriate and consistent with market practices. UTIMCO should consider expanding the recovery provision to include restatement of earnings.
Other Changes: A number of minor changes were made to clarify plan provisions, ease administration and update the Plan for new performance benchmarks.	Buck agrees that these changes are appropriate.

Prepared by: Buck Consultants
August 5, 2009

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Review of Current and Proposed UTIMCO Incentive Compensation Arrangements

Executive Report

August 19, 2009

buckconsultants
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Overview

- In February 2009, UTIMCO faced stiff criticism from the state legislature for paying out bonuses to its CEO and investment staff after a decline in assets in its $8.8 billion Permanent University Fund and the nearly $5 billion General Endowment Fund.
  - This criticism came in the midst of a broader decline of all financial markets.
  - However, during its 2007-2008 compensation year, the UTIMCO staff had achieved the performance thresholds established under the plan, thus triggering bonus payments.
- Timing was an unintended part of the issue as well. The time that transpired between the end of the compensation year and the approval of the bonus payments, although irrelevant to the incentive process, contributed to the negative perception by the legislature and the media.
  - Double-digits losses were incurred in both the markets and UTIMCO during the time between the end of the performance period and the end of the year.
  - As a result, outside perception mistakenly focused on the endowment performance for the calendar year, while the underlying performance for the incentive awards was based on the compensation year that had ended in June.
- This also occurred during a period of heightened sensitivity as the economy continued to decline and the media debated bonus payments made to AIG and other financial institutions that have received federal bailout money.

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Overview (Continued)

- Although these events were not directly related to UTIMCO, many viewed the convergence of these events as a “perfect storm” that resulted in heated public discussion and debate.
- The University of Texas System Board of Regents (the “Board of Regents”) recognizes that it is in the interest of all constituencies to ensure that similar events do not occur again.
- As a result, the Board of Regents would like to ensure that the incentive arrangements for UTIMCO are consistent with market practices. However, they would also like to look beyond best practices and ensure that “unanticipated events” would not trigger similar concerns.
- The Board of Regents has engaged Buck Consultants (“Buck”) to provide an opinion as to the plan appropriateness and reasonableness, to ensure that the compensation arrangements for UTIMCO meet the standards of good governance and to attempt to mitigate the occurrence of future incidents.
- To provide this opinion to UTIMCO, Buck assembled a team that brought in-depth experience in investment management from both a consulting and line perspective (see Appendix for team biographies).

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Overview (Continued)

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- To ensure a full appreciation of the various perspectives of UTIMCO's constituencies, Buck conducted a series of interviews as part of our review process. These interviews included:
  - Members of the University of Texas System Board of Regents: James Huffines, Chairman, Colleen McHugh, Vice Chairman and UTIMCO Board member, and Paul Foster, Vice Chairman and UTIMCO Board member,
  - Members of the UTIMCO Board of Directors: Erle Nye, Chairman, and J. Philip Ferguson, Compensation Committee Chair,
  - Executives at UTIMCO: Bruce Zimmerman, CEO and CIO,
  - Executives at The University of Texas System: Philip Aldridge, Vice Chancellor for Finance and Business Development and Francie Frederick, General Counsel to the Board of Regents.
- Using the information we gathered, and our experience in similar areas, we present in the following report a discussion and our opinion on the following:
  - The incentive plan that was in place for the 2008-2009 compensation year and (subject to review by the UTIMCO Board and the Board of Regents) is under consideration for use in the 2009-2010 compensation year,
  - The potential changes for the 2009-2010 compensation year that are being suggested in the memorandum prepared by the consultant (Mercer, Inc.) to the UTIMCO Board, and
  - The appropriateness of the plan on a forward-looking basis.
- This discussion looks beyond best practices for compensation arrangements in UTIMCO's competitive labor markets and considers the current and expected future socio-political context within which the plan could be evaluated by both the legislature and the public.

Executive Summary

- First, we assessed the incentive plan that was in place for the 2008-2009 compensation year as it relates to relevant investment management compensation practices. Our analysis indicates:
  - The overall plan is consistent with practices of organizations similar in focus and nature to UTIMCO, for example in the definition of market, eligibility, performance period and performance measures.
  - A change was made for the 2008-2009 Plan in measuring entity performance based solely on Total Endowment Assets for all participants (except the CEO and President, who are also measured on relative peer performance). We noted a concern that this change placed an even greater importance on the selection of the policy portfolio benchmark, and also created the potential that performance relative to peer companies may not be a factor in determining performance achievement.
  - Under the 2008-2009 Plan, as in prior plans, part of the incentive (based on qualitative goals) was eligible to be paid even if other quantitative goals were not reached (entity and asset class). We noted a concern that this practice may create unintended consequences.
- The market is evolving more rapidly now, and using past practice for setting future plans needs to be approached with heightened awareness of how the evolution is taking place.
  - As we will note in this report, the proposed revisions for the 2009-2010 Plan address many of these changes.

Executive Summary (Continued)

- UTIMCO Board's Compensation Committee has proposed several changes for the Plan that would be in use in the 2009-2010 compensation year relative to the modification and/or deferral of awards for certain "affected" individuals when any one of the following extraordinary events occurs for certain eligible positions.
  - If the net returns of the Total Endowment Assets are *negative at the end of* the performance period, the entire award would be deferred for one year.
  - If the net returns of the Total Endowment Asset *since the end of* the performance period are negative by 10% or more at the date the awards are approved, the entire award would be deferred for one year.
  - If the net returns of the Total Endowment Asset during the period are negative by more than 5% at the end of the performance period , awards will be reduced by 10% for each one percent or portion thereof below 5%.
  - If the net returns of the Total Endowment Asset during the performance period are positive by more than 20% at the end of the period, awards will be increased by 10% for each one percent or portion thereof above 20%.
  - Compensation is targeted at the 90th percentile of the market during the performance period when performance exceeds 20%.
  - Performance Incentive Awards, which take into both quantitative and qualitative Performance Goals, will define each Participant's Incentive Award Opportunity
- Our view is that the changes being recommended for implementation in the 2009-2010 plan year are, in general, consistent with competitive practices for plan design in organizations with similar expectations, scope and culture as UTIMCO.
- We also feel that these changes create better alignment with the interests of UTIMCO's constituencies.

Executive Summary (Continued)

- In the past, there has been a reliance, common in current market practices for incentive plan design, on “prevailing market practices” in making compensation decisions.
- In the longer-term, market factors indicate a need to shift away from this sole reliance towards a greater emphasis on practices that focus on the best interest of UTIMCO and its constituencies. Addressing these considerations may involve developing a flexible, less “peer-based” performance metric.
- We recognize that these changes will be evolutionary and take place over a period of time.
- We view the changes recommended for the 2009-2010 UTIMCO Incentive Plan to be a positive step in that direction.
- We also note that communications may have played a role in influencing the perceptions and, in some cases, misperceptions about the disconnect between pay and performance at UTIMCO.
- There appears to be reasonably effective communication on pay and performance between UTIMCO, the UTIMCO Board and the Board of Regents. However, communication with other constituencies may not have effectively anticipated and addressed issues that caused so much debate earlier this year.
  - More pay plan context would likely be helpful to the UTIMCO Board and Board of Regents, possibly providing specific examples of other organizations’ practices and the rationale behind such practices, so that the public-facing stakeholders have a well-defined and clear response to questions and concerns about pay and performance.

Executive Summary (Continued)

- Communication (Continued)
  - Education on the relevant approaches, including the potential investment management implications of an absolute returns, versus a relative benchmark framework for determining pay might provide stakeholders with more of a context for understanding the alternatives and why UTIMCO has chosen the existing approach.
    - Existing knowledge and information dissemination could be improved by establishing a clear program for ongoing communication and education.
      - Oversight entities should be provided with ongoing education on the investment management framework and potential alternatives. Further, the communications process should proactively extend to the broader group of constituents (e.g., the Texas Legislature, university institutions, etc.) that have some potential influence over UTIMCO.

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Market Summary

Historic and Current Practices

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- A number of endowments and pension funds pursue some form of “active benchmarking” in their fund management style. In these firms, strategic “policy portfolios”, composed of passive investments in market indexes, are selected. Portfolio managers are given the mandate to try and generate improved performance relative to the “policy portfolios” by engaging in securities selection and tactical asset allocation.
- However, there are usually guidelines to the extent a manager’s portfolio can differ from the “policy portfolio”. For example, an active fund benchmarked to a passive index may have a mandate not to deviate from the passive index performance by more than 0.5% to 3% per year, depending on the asset class and the fund’s goals. The rationale for these choices are twofold:
  - To ensure that the fund investment style does not drift away from the main strategic mandate defined by the passive “policy portfolios”.
  - To control the amount of discretionary risk undertaken by the fund managers.
- Within this framework, a manager’s skill is identified with the amount of “relative outperformance” achieved by the fund. Incentive compensation for these managers is typically structured to reward such skills.
- While the rationale for “active benchmarking” focused on “relative performance” has roots in modern financial theory and risk management, it does come with drawbacks. Most notably, “relative performance” may be excellent, while “absolute overall performance” may be disappointing. This effect is particularly noticeable in extreme markets such as 2008.

Market Practices (Continued)

Historic and Current Practices

- By contrast, managers of more unregulated funds, like hedge funds, pursue, and can be compensated for, generating “absolute returns”. Incentive compensation is received only when the fund generates overall positive results (in some cases, incentive compensation is not earned for positive performance until after a fund has fully recovered previous losses).
- One of the drawbacks is that managers can exercise a higher degree of discretion in the type of risks and returns to pursue. Therefore, investors would need to consider whether a manager has outperformed his/her peers by taking similar, or larger amounts of risk.
- A related drawback is that managers rewarded for “absolute returns” typically are rewarded only based on the size of the (positive) returns achieved. However, this practice does not ensure that managers are achieving the best returns for a given amount and type of risk.
- Another drawback is that pursuing absolute returns in any market conditions often requires either dynamic trading in highly liquid securities, or large concentrated bets on rather illiquid ones. Such strategies can be both difficult and very risky to implement on a large scale for funds the size of typical endowments. This is less of a risk for UTIMCO which maintains relatively conservative liquidity policies. Even so, if the UTIMCO managers could have forecast the market downturn with 20/20 hindsight, it could have taken some time to liquidate most positions at risk.
- Furthermore, even incentive compensation arrangements based on “absolute returns” are criticized under certain circumstances. For example, managers’ skills are questioned when the fund fails to outperform the relevant markets during an upturn (paying for “beta” instead of “alpha”) or if no penalty is imposed on compensation when performance is negative.

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Market Practices (Continued)

Historic and Current Practices

- To summarize, incentive compensation practices for fund managers in the investment industry tend to be based within two broad categories: “relative performance” (i.e., performance relative to a passive, unmanaged, portfolio), or “absolute returns” (i.e. performance based only on the growth in net asset value).
- While there are “typical” practices in the industry for both “relative performance” based compensation and for “absolute returns” based compensation, each practice can generate controversy under idiosyncratic market conditions. Financial theory also does not offer a unique, fully consistent solution.
- The recent market events are causing many typical or “benchmark” practices to be reconsidered. Our recent experience shows growing interest in new compensation arrangements going forward that can blend objective measures of managers’ skills with practical considerations of the economic realities of a fund’s performance.
  - While these discussions are still in early stages, they generally focus on a hybrid approach to measuring and rewarding performance based on a combination of absolute and relative performance.
  - The recommended changes for UTIMCO’s 2009-2010 Incentive Plan are a positive step in this direction.

Market Practices (Continued)

Historic and Current Practices

- Historically, a professional fund manager's compensation has consisted of two components:
  - A (relatively modest) fixed "base" salary paid regardless of fund performance.
  - An "incentive" bonus based on either "relative" or "absolute" performance criteria.
- Investment organizations like endowments and institutions typically adopt a "relative performance" incentive methodology based on how well the fund performs relative to a "policy portfolio" benchmark.
  - The intent is to reward the fund manager for consistently outperforming the markets, thus creating an "objective" way to assess a manager's performance.
  - Initially, "relative performance" and incentive rewards were typically assessed and paid over a one-year period.
    - This approach raised concerns that misalignment could be created between investor and portfolio manager long-term goals, since the portfolio manager might be incented to maximize short-term returns opportunities at the expense of longer-term ones.
  - As a result, the trend has been to measure benchmark-relative performance over a three- to five-year period, with three years being most common.
- Compensation arrangements can be highly structured (example, Harvard University) or highly discretionary (example, Yale University).

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UTIMCO Investment Philosophy

- UTIMCO Funds are managed according to an "active benchmarking" approach.
- Over half of the funds are actively managed.
- The remaining funds have a designated "policy portfolio", which consists of a weighted portfolio of passive indices representing a broad mix of asset classes.
  - For these funds, the manager's mandate is to "outperform" the policy portfolio mainly by engaging in "manager selection" and "manager allocation" within each asset class (i.e. "managers of managers").
- The primary investment objective for the overall UTIMCO portfolio is to preserve the purchasing power of fund assets by earning an average annual real return (the stated goal is around 5.1% per year) over rolling time periods at least equal to the annual target distribution rate.
- UTIMCO views active management over its policy portfolios as a more efficient, better risk-adjusted way to achieve these objectives than a passive-management approach.
- UTIMCO maintains a moderate risk-profile and seeks to align its staff with this profile by emphasizing performance over the long-term.
- UTIMCO seeks to align the performance of its investment staff with this risk-profile by measuring performance over a rolling three-year period within the parameters established under its investment philosophy.

2008-2009 UTIMCO Incentive Plan

Summary of Major Provisions

- In this section, we have summarized UTIMCO's incentive arrangement as it exists in the current compensation year.
- UTIMCO's compensation program compares to its competitive labor markets as follows:
  - Base salaries are targeted at the market median.
  - Total compensation (base salary plus target Individual Incentive Opportunity) is also targeted at the market median.
  - Maximum total compensation for excellent performance (salary plus maximum Individual Incentive Opportunity) is targeted at the 75th percentile of the market.
- UTIMCO identifies a market for compensation purposes as the labor market within which it competes for talent. This market would include comparably sized university endowments, foundations, in-house managed pension funds, and for-profit investment management firms with a similar investment philosophy.
- Market reference points are recommended by the UTIMCO Board's consultant (Mercer, Inc.) based on a composite of data on compensation levels and practices at for-profit and not-for-profit organizations. Data is compiled from compensation surveys conducted by Mercer, Inc. and McLagan.
- The variable pay component of total compensation for UTIMCO employees is delivered though its Performance Incentive Plan.
- Under this Plan, awards are based on performance in three categories:
  - Entity Performance
  - Asset Class/Investment Type Performance
  - Qualitative Performance

2008-2009 UTIMCO Incentive Plan (Continued)

Summary of Major Provisions

- Entity Performance is the performance of the Total Endowment Assets (weighted at 85%) and the Intermediate Term Fund (weighted at 15%).
  - The performance of the Total Endowment Assets (“TEA”) is measured relative to the TEA Policy Portfolio Return (TEA benchmark).
  - The performance of the Intermediate Term Fund (“ITF”) is measured relative to the ITF Policy Portfolio Return (ITF benchmark).
  - Performance for both is measured on a three-year rolling historical performance of each fund.
- Asset Class/Investment Type Performance is the performance of specific asset classes and investment types within the Total Endowment Assets and the Intermediate Term Fund.
  - The performance of each asset class and investment type will be measured relative to a pre-established benchmark based on three-year rolling historical performance based on spreads established each year by Cambridge Associates.
- Qualitative Performance will be measured based on the attainment of pre-established goals that are set for each participant for the performance period.
  - Threshold is reached if the participant reaches 50% or more of his/her goals.
  - Target is reached if the participant reaches 75% or more of his/her goals.
  - Maximum is reached if the participant reaches 100% or more of his/her goals.

2008-2009 UTIMCO Incentive Plan (Continued)

Summary of Major Provisions

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- Individual Incentive targets vary by position. The total opportunity ranges, from Analyst level to CEO & CIO, as shown below:
  - 12.5% to 50% of base salary at Threshold.
  - 25% to 100% of base salary at Target.
  - 50% to 200% of base salary at Maximum.
- Qualitative goals can be established in one or more of the following areas:
  - Leadership,
  - Implementation of operational goals,
  - Management of key strategic projects,
  - Effective utilization of human and financial resources, and
  - UTIMCO investment performance relative to the peer group.
  - Qualitative goals for the CEO and president also include absolute fund performance.
- Weights based on performance category for investment professionals also vary by position, and range, from Analyst level to CEO & CIO, as shown below:
  - 10% to 60% for entity performance.
  - 0% to 50% for assets class/investment type performance.
  - 20% to 70% for qualitative performance.
- Operations/support professionals are 20% entity and 80% qualitative, except for the General Counsel, who is 100% qualitative.

2008-2009 UTIMCO Incentive Plan (Continued)

Summary of Major Provisions

- At the end of the Performance Period, 70% of the incentive award is paid out to the participant in cash, while the remaining 30% is allocated to a non-qualified deferred compensation account set up in the participant's name.
- Deferred amounts are vested and paid out in equal annual installments, beginning with the first anniversary of the last day of the Performance Period in which the award was earned.
- Deferred amounts are credited or debited monthly, based on the performance of the Total Endowment Assets.

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2008-2009 UTIMCO Incentive Plan (Continued)

Assessment of Plan Design

UTIMCO Versus Market Practice

- As previously noted, many of the gaps cited for the 2008-2009 are addressed in the recommendations proposed by UTIMCO's Compensation Committee for the 2009-2010 Plan, which will be discussed later in this report.
- Overall, the general design and provisions for the compensation arrangement that was in place for UTIMCO's 2008-2009 compensation year are consistent with common practices in its defined labor markets, which is made up of endowments of comparable size and scope as UTIMCO.
- UTIMCO's incentive arrangements follow market practice:
  - It has been a common practice to include both for-profit and not-for-profit organizations in these defined labor markets for compensation comparison purposes.
  - It also has been a common practice within this market definition to target market medians for total compensation while providing an upside opportunity for superior performance.
  - Virtually all of the organizations in UTIMCO's defined markets offer participation in a short-term incentive plan, with participation generally running deep within the investment staff hierarchy.
  - Performance is usually measured over a rolling three-year period and is usually measured against the policy portfolio benchmark.
  - It is also common to measure performance at the total asset, asset class/investment type, and individual fund levels.
  - Organizations are about equally divided between paying awards out in full and requiring a deferral of some portion of the award.

2008-2009 UTIMCO Incentive Plan (Continued)

Assessment of Plan Design

Measurement Changes

- For the 2008-2009 incentive plan, UTIMCO changed the way that entity performance was measured.
  - In the past, performance was measured against a combination of policy portfolio performance and performance relative to a peer group.
  - In the 2008-2009 incentive plan, performance against the peer group was moved to the Qualitative Goal category, where it is now an optional metric (except for the CEO and president, where it is mandatory).
  - Entity performance is now based totally on performance relative to the policy portfolio.
  - This means that performance relative to peer companies may not be a factor in determining performance achievement.
  - This places an even greater importance on the selection of the policy portfolio benchmark.

Qualitative Goals

- For the 2008-2009 incentive plan, as in prior years, qualitative goals could be paid out even if the thresholds for entity and asset class/investment type performance are not met. Payouts have historically been near maximum.
- In our experience, this practice requires a great deal of rigor to the setting of qualitative goals to ensure that they are aligned with strategic initiatives and objectives. It is also necessary to ensure that potential rewards are appropriate based on potential outcomes – and the level of effort required to achieve those outcomes.
- Investment staff may achieve – and be paid bonuses for – qualitative awards, even when financial (quantitative) thresholds are not achieved.

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2008-2009 UTIMCO Incentive Plan (Continued)

Assessment of Plan Design

Qualitative Goals (Continued)

- While this may be entirely appropriate based upon actual performance achievement and/or circumstances, it does create a potential for poor optics and indicates a strong need for disciple in setting and documenting qualitative goals at the beginning of the performance period.
- To avoid the potential for unintended consequences, some companies have established performance thresholds as a requirement for activating qualitative awards.

Evolving Market

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- It should be noted that comparisons to best practices requires a “backward-looking” analysis. Our market intelligence indicates that many of these organizations are considering changes to their plans based on their recent experience relative to incentive awards and market performance.
- At this point, this information can only be gathered informally, since many of the changes under consideration have not been formalized or approved.
- Therefore, while we find that the incentive arrangements in place are consistent with current market practices, there is evidence that material shifts in pay practices will occur as a result of the outcomes created by the market dislocation of 2008-2009.
- This does not mean that the current arrangements will no longer be “reasonable”; however, they may no longer be the best way to support UTIMCO’s revised policies and objectives.
- These market changes support the changes in the incentive arrangement that are being recommended for 2008-2009

2009-2010 UTIMCO Incentive Plan

Proposed Changes (Mercer)

- Several changes to the incentive arrangement are being recommended by Mercer, who currently serves as the consultant to the UTIMCO Board.
- The UTIMCO Compensation Committee incorporated these recommendations, as well as input from other sources to prepare its final recommendations, which are discussed in detail in pages 22 to 25 of this report.
- Mercer recommended three basic changes to the Plan for the 2009-2010 compensation year:
  - First, the mandatory deferral requirement (as a percent of base salary) would vary by position.
  - Second, the UTIMCO Board would have greater discretion and latitude in its ability to identify “extraordinary circumstances”, and to modify the timing or magnitude of incentive payments in the event of such “extraordinary circumstances”.
    - Triggering events could be pre-specified, conditional on other events, or at the total discretion of the Board.
    - The triggering event could require full or partial deferral of all payouts or plan year payouts, at the discretion of the Board.
    - The award would be deferred until investment metrics meet a threshold level, for a one-year period or at the full discretion of the Board.
    - As discussed in the next section, the UTIMCO Board did *not* incorporate the recommendations for increased discretion in its final recommendations.
  - Third, a “claw-back” provision is added that would allow for recovery of awards paid to or deferred by an employee in the event of fraud or misconduct.

2009-2010 UTIMCO Incentive Plan (Continued)
Proposed Changes (UTIMCO Compensation Committee)

- As noted in the prior section, The UTIMCO Compensation Committee incorporated input from its consultant, as well as other sources, in developing recommendations.
- The Committee has recommended new provisions relative to the modification and/or deferral of awards when any one of the following extraordinary events occurs for certain eligible positions.
  - If the net returns of the Total Endowment Assets are *negative at the end of* the period, the entire award would be deferred for one year.
  - If the net returns of the Total Endowment Asset *since the end of* the performance period are negative by 10% or more at the date the awards are approved, the entire award would be deferred for one year.
  - If the net returns of the Total Endowment Asset during the period are negative by more than 5% at the end of the period , awards will be reduced by 10% for each one percent or portion thereof below 5%.
  - If the net returns of the Total Endowment Asset during the period are positive by more than 20% at the end of the period, awards will be increased by 10% for each one percent or portion thereof above 20%.
  - Maximum compensation is targeted at the 90th percentile of the market during the performance period when performance exceeds 20%.

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2009-2010 UTIMCO Incentive Plan (Continued)

Assessment of Committee Recommendations

- Overall, we find that the recommended changes reasonable and appropriate, as discussed in the remainder of this section.
- **Mandatory Deferrals:** It is a common market practice to vary mandatory deferral amounts by position, rather than using a fixed amount. This would be perceived as fairer by the staff since senior staff have more influence on investment decisions.
- **Performance and "Extraordinary Circumstances":** The UTIMCO Board's recommendations address a number of concerns regarding the relationship of pay and performance.
  - Deferrals in the event of negative performance will help address potential legislative concerns and public perception.
  - Reducing awards for negative performance below a specified amount provides a balance of relative and absolute performance.
  - Providing additional upside for positive performance above a specified amount provides appropriate symmetry in award calculation.
  - While these recommendations are all positive steps, they do result in an increased complexity in the plan design. While this is not a negative per se, it does indicate an increased need to ensure that the new plan is effectively communicated to both participants and other constituencies.

2009-2010 UTIMCO Incentive Plan (Continued)

Assessment of Committee Recommendations

- While these recommendations respond to the major issues under consideration for the 2009-2010 Incentive plan, there are several additional design issues may need to be addressed:
  - Tying pay to market data for extraordinary positive performance (e.g., over 20% return) may present challenges since available survey data often lags the measurement period.
  - A cap for positive performance to some point above 20% will help with plan optics. For example, any return above 30% would result in a flat rate for performance beyond that level.
  - In the event of two or more consecutive years of negative performance, UTIMCO may want to consider a provision to address deferrals (e.g., pay out 50% and roll the rest until performance turns positive). Since this would be the first year for the mandatory deferral requirement, such a provision could be an item that could be addressed for the 2010-2011 Incentive Plan.

2009-2010 UTIMCO Incentive Plan (Continued)

Assessment of Committee Recommendations

- **Qualitative Goals:** The UTIMCO Board has addressed previously noted concerns regarding qualitative goals in its recommendations. As proposed, "Performance Incentive Awards", will include Entity Performance, Asset Class/Investment Type Performance, and Qualitative Performance Goals, will be subject to the performance requirements discussed on page 23 of this report.
- **Claw-Back Provisions:** It is also common and advisable to have a claw-back provision in incentive arrangements to allow for recovery of paid or deferred awards in the event of fraud or misconduct. This change would bring UTIMCO more in line with market practices. It would also provide greater protection for UTIMCO and its constituencies.

Other Considerations

Looking Forward

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- The events that came together earlier this year were clearly “extraordinary”. However, the low probability of these events occurring does not mean that they will not occur again:
  - A town in Minnesota recently saw two “hundred-year floods” occur within a few years of each other.
  - One in a lifetime market crashes have happened repeatedly in the past 50 years.
  - Crashes like 1987, 1998, 2001, 1989, 2008, should be extraordinarily rare events based on the price and market distribution assumptions commonly used for investment analyses (e.g., lognormal distribution with specified mean and variance). The fact that we have had at least five of these events in the last 22 years suggests that our model for this type of event may no longer be accurate.
- Many of the recommendations discussed in this report are focused on how to control payouts in the event of a significant decline in total assets in the future. However, other possibilities exist:
  - For example, total assets may continue to decline. Even a continued modest decline on top on the significant decline experienced at the beginning of the 2008-2009 compensation year could bring significant scrutiny to any bonuses that would be awarded in case of positive performance relative to the policy portfolio.
    - Deferral of bonuses may not fully address renewed scrutiny and concerns.
  - On the other hand, a modest gain in total assets could trigger higher payouts without a deferral, even though the net asset value is still significantly below its peak.

Other Considerations (Continued)

Looking Forward

- This raises a question, for example, whether or not “high watermark” provisions should be added as well, whereby future bonuses would be contingent on the net asset value having recovered above certain thresholds.
  - This is a difficult and complex issue Such provisions are also clearly not majority practices in the market. However, given the uncertainty of financial markets, such a provision may warrant consideration for future plan design.
- It is equally likely that unforeseen events may occur differently in the future.
  - An economic recovery could result in superior performance that could result in higher than anticipated bonuses based on the “upside” symmetry that is being complemented.
  - The situation could be made worse if the performance results in overall fund assets that are still below the levels seen at the beginning of the 2007-2008 compensation year.
  - In the same vein, UTIMCO could restore a significant portion of total assets in the 2009-2010 compensation year and still not outperform benchmarks.
  - This could result in diminished payouts occurring at the same time increased deferrals are put into place.
  - While this may be received favorably by the legislature and media, it is likely that it would be received unfavorably by the investment staff, creating potential retention issues.
  - While caps are in place to limit the size of payouts, these limits are based on relative performance. As a result, caps may not mitigate the concerns of other constituencies whose perceptions are based on absolute performance.
- This opens the risk that incentive compensation plans will have to be revised each and every year to respond to any new idiosyncratic circumstances and concerns.

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Other Considerations (Continued)

Looking Forward

- We advise that UTIMCO carefully vet many scenarios if it is considering changing the current incentive plan from a purely "relative" performance based, to a blend of "relative" and "absolute" performance that:
  - Is well-balanced and with minimal need for future revisions.
  - Is still easily understood by the Board and the staff.
  - Has minimal need to invoke frequent discretionary deliberations by the Board.
- While most of the changes under consideration focus on compensation plan design features based on considerations of reasonableness, fairness, peer comparison, and consistency with investment methodologies, these criteria may not fully ensure that the design of the plan is "perceived" favorably by constituencies outside of the immediate group of UTIMCO and the Board of Regents.
- Incentive plan design can be a complex process, particularly in an investment management environment. Constituencies not closely involved with UTIMCO's management process may not have sufficient information to fully appreciate and understand the rationale for designing an incentive plan that determines rewards based on "relative" performance metrics, no matter how disciplined and well-written the plan is.
- Furthermore, external constituencies may not fully appreciate the level of contribution that the UTIMCO staff may have made to limit the declines in asset values given the fund's size, mandate, and operational controls.

Other Considerations (Continued)

Looking Forward

- UTIMCO should consider revising and improving its communication process with external constituencies. This could be achieved by:
  - Increasing the amount of educational information available on the UTIMCO web site that is targeted at answering questions about how a fund works, how managers are rewarded, etc.
  - Identifying officials within external constituencies with whom to engage in regularly scheduled conversation updates to discuss, anticipate and defuse potential upcoming issues.
- We offer a final consideration regarding the basing of incentive compensation arrangements on best practices, which involved a "backward-looking process" of analyzing compensation surveys and studies and then projecting the historical information to fit the upcoming year.
  - This approach is likely to be less effective at a time when all plans are being reconsidered.
  - UTIMCO may want to consider adopting a "forward-looking" approach that bases reasonableness on broad market parameters and that addresses the specific needs and objectives of UTIMCO and its constituencies.
    - While the discussion related to these types of strategies are still in their early stages, there is considerable interest in this approach as companies develop scenarios that anticipate the potential future impact on pay and performance.
    - As previously noted, the recommended changes for the 2009-2010 Incentive Plan are a positive first step in this direction.
  - Under this scenario, reasonableness would also be affirmed through a stress-testing process that involves anticipating contingencies and planning optimum responses in target, best and worst case scenarios.

93.35

buckconsultants an ACS company

Other Considerations (Continued)

Looking Forward

- We suggest that the Board of Regents consider further discussions regarding the issues discussed in this section for a time following the approval of the 2009-2010 Plan.
- These future discussions would be focused on potential changes/enhancements that may be considered for the 2010-2011 compensation year or beyond.

93.36

93.37

Appendix

Team Biographies

Jim Sillery, a Principal in Buck's Compensation Consulting Practice, has consulted to and worked in the financial services industry for nearly 30 years. Over this period, Mr. Sillery has successfully helped senior management and Boards of Directors of client companies to develop compensation solutions that provide a competitive advantage in today's intensely competitive global markets while meeting the standards of good governance.

Mr. Sillery worked extensively in developing total compensation programs for senior executives and key contributors in specialized business groups. He has worked with investment management firms, single family offices, endowments, and state pension funds.

93.38

Prior to joining Buck, Jim has also provided consulting services for several consulting firms, ranging from executive compensation boutiques to global human capital consultancies. In corporate roles, Jim has directed the compensation and benefit functions at several major financial services firms, including Harris Bancorp/Bank of Montreal, Heller International and Star Bank (now US Bank).

Team Biographies

Andrea Malagoli works in the Compensation Practice of Buck Consultants, an ACS Company, based in New York City. At Buck, Andrea is focusing on developing capital markets solutions to finance, enhance, and hedge asset-liabilities exposures resulting from company-sponsored qualified and non-qualified compensation and retirement programs.

Andrea spent several years in the financial industry working in the alternative asset management and financial risk management areas. He was the Director of Research at Magnitude Capital, a fund of hedge funds, where he developed the portfolio risk management methodologies and was involved in selecting new managers.

93.39

He subsequently was a Director at Jefferies Financial Products and Chicago Trading Company, where he continued working on alternative investments selection and portfolio management, and oversaw the development and sale of commodities structured products to institutional investors.

Andrea Malagoli started his career as a computational physicist at the University of Chicago. He has a M.B.A. in Finance and Management from the University of Chicago and holds NASD Series 7 and 63 registrations.

Team Biographies

Chris Young oversees Buck Consultants' compensation practice globally. Chris has provided advice to numerous financial services sector participants over his career as a consultant, ranging from local banking organizations to large bulge bracket investment banking firms.

During his consulting career, Chris covered a number of subspecialty areas, including executive compensation, sales effectiveness, and key contributor compensation design and evaluation.

93.40

In addition to serving as a consultant to a broad range of financial services firms, Chris has also worked directly as a developer and marketer of structured capital market solutions for both institutional and retail clients. In that capacity, he worked at UBS Warburg as an executive director and managing director heading up its employee benefits structured products area. Subsequently, he oversaw US operations for a business focused on the development, marketing, "proof of concept" sale, and implementation of a unique solution for hedging non-qualified deferred compensation arrangements.

Chris has approximately eighteen years experience serving as a consultant in the compensation and benefits areas, and approximately eight years directly in financial services firms.

Contact Information

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93.41

Andrea Malagoli
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Disclaimer

The information and recommendations provided in this report are not for the purpose of rendering tax or accounting advice. For advice relating to tax or accounting consequences of any recommendations contained herein, the company's tax and accounting advisors should be consulted.

7. U. T. System Board of Regents: Approval of the Annual Budget, including the capital expenditures budget, and Annual Fee and Allocation Schedule for The University of Texas Investment Management Company (UTIMCO)

RECOMMENDATION

The University of Texas Investment Management Company (UTIMCO) Board of Directors recommends that the U. T. System Board of Regents approve the proposed Annual Budget as set forth on Page 95, which includes the capital expenditures budget and the Annual Fee and Allocation Schedule for the fiscal year ending August 31, 2010, as set forth on Pages 96-97.

BACKGROUND INFORMATION

The proposed Annual Budget of $50.2 million for Fiscal Year 2010 was approved by the UTIMCO Board on July 9, 2009. The proposed Budget is a decrease of 25% over the prior year budget and a 27% increase over the Fiscal Year 2009 Forecast.

Of the $50.2 million Fiscal Year 2010 Budget, $16.0 million is for UTIMCO services and $5.4 million is for non-investment manager services such as custodial, legal, audit, and consulting services charged to the Funds. This combined $21.4 million compares to the $22.6 million Fiscal Year 2009 Budget for a decrease of $1.2 million.

The remainder of the Budget is for investment manager annual and performance fees charged directly to the Funds. The budgeted decrease is primarily driven by fund performance assumptions and decline in asset value.

The proposed Annual Fee and Allocation Schedule shows the allocation of the proposed budgeted expenses among U. T. System funds. The fees are to be paid quarterly.

The proposed capital expenditures budget totaling $0.1 million is included in the total Annual Budget.

UTIMCO staff projects UTIMCO's available cash reserves to be approximately $5 million and recommends that the $5 million of cash reserves be distributed back to the U. T. System funds per the Master Investment Management Services Agreement (IMSA) between the U. T. System Board of Regents and UTIMCO.

UTIMCO (in thousands)	FY 2009 Budget	FY 2009 Forecast	FY 2010 Budget	FY10 Budget v FY09 Forecast $	%
SUMMARY					
UTIMCO Personnel	**$12,489**	**$11,594**	**$12,018**	**$424**	**4%**
UTIMCO Other	**4,055**	**3,791**	**3,959**	**168**	**4%**
Total UTIMCO	**16,544**	**15,385**	**15,977**	**592**	**4%**
Other, Non-Investment Manager	**6,042**	**4,997**	**5,437**	**440**	**9%**
Total Non-Investment Manager	**$22,586**	**$20,382**	**$21,414**	**$1,032**	**5%**
Investment Manager - Invoiced	**44,203**	**19,156**	**28,747**	**9,591**	**50%**
Total	**$66,789**	**$39,538**	**$50,161**	**$10,623**	**27%**
DETAIL					
UTIMCO Personnel					
Salaries & Accrued Vacation	$6,956	$6,422	$6,723	$301	5%
Bonus	3,566	3,451	3,482	31	1%
Benefits	1,293	1,112	1,166	54	5%
Taxes	478	446	470	24	5%
Hiring	50	17	20	3	19%
Subscriptions, Dues, Education	146	146	157	11	8%
Total	**$12,489**	**$11,594**	**$12,018**	**$424**	**4%**
UTIMCO Other					
Travel & Meetings	$859	$417	$622	205	49%
Online, Data, Contract Services	743	818	900	82	10%
Lease	983	964	979	15	2%
Depreciation	612	591	574	(17)	-3%
Insurance	236	243	250	7	3%
Office Expenses	363	326	334	8	2%
Professional Services	259	432	300	(132)	-31%
Total	**$4,055**	**$3,791**	**$3,959**	**$168**	**4%**
Other, Non-Investment Manager					
Custodian	$1,725	$1,848	$2,009	161	9%
Measurement & Analytics	1,327	1,201	1,210	9	1%
Consultants	950	567	745	178	31%
Investment-related Legal	1,115	502	726	224	45%
Audit	776	733	734	1	0%
Printing	139	133	0	(133)	-100%
Other	10	13	13	(0)	0%
Total	**$6,042**	**$4,997**	**$5,437**	**$440**	**9%**
Investment Manager - Invoiced					
Management Fees	$23,897	$15,440	$18,695	3,255	21%
Performance Fees	20,306	3,716	10,052	6,336	171%
Total	**$44,203**	**$19,156**	**$28,747**	**$9,591**	**50%**

UTIMCO 7/9/2009

($ in millions)	Actual					Projected	Budget - AUM Flat	Budget - AUM 3%
	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 10
Average Total Assets Under Management (AuM):	$ 15,470	$ 17,245	$ 19,372	$ 21,965	$ 23,359	$ 21,274	$ 21,274	$ 21,912
Costs excluding Investment Manager Expenses								
UTIMCO Services	$8	$10	$11	$12	$14	$15	$16	$16
Costs to Funds (Other than Investment Manager)	4	5	5	6	6	5	5	5
UTIMCO + Non-Investment Manager Cost to Funds	$12	$15	$16	$18	$20	$20	$21	$21
Costs/AuMs (basis points)								
UTIMCO Services	5	6	6	6	6	7	8	7
Costs to Funds (Other than Investment Manager)	3	3	2	2	3	2	2	2
UTIMCO Services + Costs to Funds	8	9	8	8	9	9	10	9
Investment Manager Fees								
Annual Management Fees								
Netted Against Net Asset Value/Capital Balance	$62	$77	$115	$164	$210	$206	$214	$214
Charged to Funds	13	13	18	16	21	15	19	19
Total Annual Management Fees	$75	$90	$133	$180	$231	$221	$233	$233
Performance Fees								
Netted Against Net Asset Value/Capital Balance	$57	$91	$81	$227	$64	$66	$62	$62
Charged to Funds	9	16	30	18	8	4	10	10
Total Performance Fees	$66	$107	$111	$245	$72	$70	$72	$72
Total Investment Manager Fees	$141	$197	$244	$425	$303	$291	$305	$305
Costs/AuMs (basis points)								
Annual Management Fees	48	52	69	81	99	104	109	106
Performance Fees	43	62	57	112	31	33	34	33
Total Fees	91	114	126	193	130	137	143	139

UTIMCO 7/9/2009

UTIMCO Budget
Annual Fee and Allocation Schedule
For the fiscal year ending August 31, 2010

($ millions)	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 Intermediate Term Fund (ITF)	Short Term Fund (STF)	Separately Invested Endowments and Charitable Trust Accounts	Total
Market Value 2/28/09	**$ 8,287**	**$ 727**	**$ 3,830**	**$ 4,557**	**$ 2,927**	**$ 1,608**	**$ 125**	**$ 17,504**
UTIMCO Management Fee (includes all operating expenses associated with the general management of the Funds)	**$ 7.9**	**$ 0.8**	**$ 4.4**		**$ 2.9**			**$ 16.0**
Allocation Ratio	49%	5%	28%		18%			100%
Direct Expenses of the Fund								
External Management Fees	$ 8.9	$ -	$ -	$ 4.9	$ 4.9			$ 18.7
External Management Fees - Performance Based	5.3	-	-	2.8	1.9			10.0
Other Direct Costs	2.4	0.0	0.0	1.7	1.3			5.4
Total Direct Expenses of the Fund	16.6	0.0	0.0	9.4	8.1			34.1
TOTAL	**$ 24.5**	**$ 0.8**	**$ 4.4**	**$ 9.4**	**$ 11.0**			**$ 50.1**
Percentage of Market Value (in basis points)								
UTIMCO Services	9.5	11.1	11.6	-	9.8			9.1
Direct Expenses of the Fund	20.0	0.4	0.1	20.7	27.7			19.5
TOTAL	**29.5**	**11.5**	**11.7**	**20.7**	**37.5**			**28.6**

UTIMCO 7/9/2009

8. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions

RECOMMENDATION

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

a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed $800 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects in the Capital Improvement Program (CIP) and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such Bonds.

BACKGROUND INFORMATION

On May 14, 2009, the Board of Regents adopted a resolution authorizing the issuance of additional RFS Bonds in an amount not to exceed $700 million. A portion of this authority was utilized with the issuance of $330.5 million RFS Taxable Bonds, Series 2009B (Build America Bonds) that were issued on June 17, 2009, and $260.0 million of RFS Bonds, Series 2009D that were issued on July 15, 2009. Adoption of the resolution on May 14, 2009 rescinded the remaining issuance authority under the resolution approved by the Board of Regents on August 14, 2008.

Adoption of this Resolution would rescind the remaining issuance authority under the resolution approved by the Board of Regents in May, and provides a similar authorized amount and purposes as the prior resolution, including the flexibility to issue a portion of the bonds as taxable bonds and to designate such bonds as Build America Bonds.

Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the issuance of all or a portion of the proposed bonds as taxable Build America Bonds. The determination of whether to designate any bonds as Build America Bonds would be made by the appropriate officer based on what is most cost-effective at the time of pricing. The Resolution also authorizes the issuance of taxable bonds, without designating such taxable bonds as Build America Bonds, which may be necessary due to the use of certain facilities. Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the allowable credit to be refunded to U. T. System in the event that all or a portion of the proposed financing is issued as taxable Build America Bonds.

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

> Note: The proposed resolution is available online at http://www.utsystem.edu/bor/AgendaBook/Aug09/8-09RFSResolution.pdf

9. U. T. System Board of Regents: Adoption of a Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions

RECOMMENDATION

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

a. adopt a Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed $400 million to be used to refund certain outstanding PUF Bonds, to refund PUF Flexible Rate Notes, Series A, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs and to pay the costs of issuance; and

b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On May 14, 2009, the Board of Regents adopted an amended and restated resolution authorizing the issuance of PUF Bonds in an amount not to exceed $500 million. Adoption of this Resolution would rescind the resolution approved by the Board of Regents in May, and would provide a similar authorized amount and purposes as the prior resolution, including the flexibility to issue a portion of the bonds as taxable bonds and to designate such bonds as Build America Bonds.

Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the issuance of all or a portion of the proposed bonds as taxable Build America Bonds. The determination of whether to designate any bonds as Build America Bonds would be made by the appropriate officer based on what is most cost-effective at the time of pricing. The Resolution also authorizes the issuance of taxable bonds, without designating such taxable bonds as Build America Bonds, which may be necessary to manage the federal arbitrage limit applicable to the PUF. Adoption of the Resolution would also authorize appropriate officers and employees of U. T. System to take any and all actions, including making appropriate elections required by federal tax law, necessary to cause the allowable credit to be refunded to U. T. System in the event that all or a portion of the proposed financing is issued as taxable Build America Bonds.

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

> Note: The proposed resolution is available online at
> http://www.utsystem.edu/bor/AgendaBook/Aug09/8-09PUFResolution.pdf

10. U. T. System Board of Regents: Adoption of resolutions authorizing certain bond enhancement agreements for Revenue Financing System debt and Permanent University Fund debt

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Board of Regents adopt resolutions substantially in the form set out in Volume 2 of the Agenda Book (the Resolutions) authorizing appropriate officers of the U. T. System to enter into bond enhancement agreements related to its Revenue Financing System (RFS) and Permanent University Fund (PUF) debt programs in accordance with the U. T. System Interest Rate Swap Policy and to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents.

BACKGROUND INFORMATION

The U. T. System Interest Rate Swap Policy was adopted as a Regental Policy on February 13, 2003, and was incorporated into the Regents' *Rules and Regulations*, Rule 70202 on December 10, 2004. The Rule was subsequently amended on August 23, 2007.

Texas Education Code Section 65.461 provides specific authority to the U. T. System Board of Regents to enter into "bond enhancement agreements," which include interest rate swaps and related agreements in connection with administration of the U. T. System's RFS and PUF debt programs.

On August 14, 2008, the Board approved bond enhancement agreement resolutions for FY 2009. Approval of this item would authorize the execution of bond enhancement agreement transactions related to RFS and PUF debt in accordance with the U. T. System Interest Rate Swap Policy for FY 2010. The determination to utilize bond enhancement agreements will be made based on market conditions at the time of pricing the related debt issuance. The Chairman of the Board of Regents and the Chairman of the Board's Finance and Planning Committee will be informed in advance of any proposed transactions to be undertaken pursuant to the resolutions.

Supplemental Materials: Resolutions on Pages 85 - 105 of Volume 2.

11. U. T. System: Approval of aggregate amount of $125,918,000 of equipment financing for Fiscal Year 2010 and resolution regarding parity debt

RECOMMENDATION

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

a. approve an aggregate amount of $125,918,000 of Revenue Financing System Equipment Financing for FY 2010 as allocated to those U. T. System institutions set out on Page 103; and

b. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the cost of equipment including costs incurred prior to the issuance of such parity debt;

- 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. System Board of Regents relating to the Financing System;

- the U. T. System 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. System Board of Regents of tax-exempt parity debt in the aggregate amount of $125,918,000 for the purchase of equipment; and

- this resolution satisfies the official intent requirements set forth in Section 1.150-2 of the *Code of Federal Regulations* that evidences the Board's intention to reimburse project expenditures with bond proceeds.

BACKGROUND INFORMATION

On April 14, 1994, the U. T. System 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. Equipment financing is used for the purchase of equipment in lieu of more costly vendor financing. 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 $125,918,000 for equipment financing for Fiscal Year 2010.

The U. T. System Board of Regents approved $133,006,000 of equipment financing in Fiscal Year 2009, of which $75,978,000 has been issued as of August 3, 2009.

Further details on the equipment to be financed and debt coverage ratios for individual institutions can be found on Page 103.

APPROVAL OF U. T. SYSTEM EQUIPMENT FINANCING
FY 2010

Institution	$ Amount of Request	Description of Expected Equipment Purchases	DSC*
U. T. Austin	$3,000,000	Classroom equipment, research equipment, information technology equipment, and athletics equipment	2.2x
U. T. Dallas	7,000,000	Pilot Shared Services/Student Systems Project and PeopleSoft Enterprise Application Project	2.5x
U. T. El Paso	918,000	Vehicle replacement and athletics turf replacement	2.6x
U. T. Southwestern Medical Center - Dallas	34,000,000	Information technology equipment, clinical and hospital equipment, and non-clinical equipment	2.5x
U. T. Medical Branch - Galveston	40,000,000	Clinical equipment, information technology equipment, research-related equipment, facilities-related equipment	3.1x
U. T. Health Science Center - Houston	3,000,000	Lab equipment and office furnishings	1.7x
U. T. Health Science Center - San Antonio	4,000,000	Research equipment, clinical equipment, and infrastructure equipment	1.5x
U. T. M. D. Anderson Cancer Center	30,000,000	Medical equipment, research equipment, technology equipment, and diagnostic equipment	5.8x
U. T. Health Science Center - Tyler	4,000,000	Information technology equipment, clinical equipment, and research equipment	2.3x

Total	$125,918,000

* Debt Service Coverage ("DSC") based on six-year forecasted Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") for FY2009 – FY2014.

U. T. System Office of Finance, July 9, 2009

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FOR
ACADEMIC AFFAIRS COMMITTEE

Committee Meeting: 8/19/2009

Board Meeting: 8/20/2009
Austin, Texas

1. <u>U. T. Arlington: Authorization to acquire approximately 1.466 acres out of Lot 24R, John Huitt Addition, Arlington, Tarrant County, Texas, from the First Baptist Church of Arlington, Texas, to use, in conjunction with other U. T. owned property, as the location of a parking garage and residence hall to be constructed by U. T. Arlington for its Special Events Center, in exchange for an agreement with First Baptist Church of Arlington, Texas, to use parking spaces in the garage</u>

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and President Spaniolo that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Arlington, to

a. acquire approximately 1.466 acres out of Lot 24R, John Huitt Addition, Arlington, Tarrant County, Texas, from the First Baptist Church of Arlington, Texas, to use, in conjunction with other U. T. owned property, as the location of a parking garage and residence hall to be constructed by U. T. Arlington for its Special Events Center, in exchange for an agreement with First Baptist Church of Arlington, Texas, to use parking spaces in the garage; and

b. authorize the Executive Director of Real Estate to execute all other documents, instruments, and all other agreements subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

<u>BACKGROUND INFORMATION</u>

First Baptist Church of Arlington (FBCA) has offered to convey approximately 1.466 acres improved with surface parking to the Board of Regents for the use and benefit of U. T. Arlington. The land would be used, in conjunction with other U. T. owned property, for the location of U. T. Arlington's proposed parking garage, which will support the institution's Special Events Center to be constructed immediately south of the parking garage. The parking garage will be a part of a complex that will include student housing and possible office and retail uses. Both the Special Events Center and parking garage were approved for construction by the Board of Regents on February 12, 2009 and May 14, 2009, respectively.

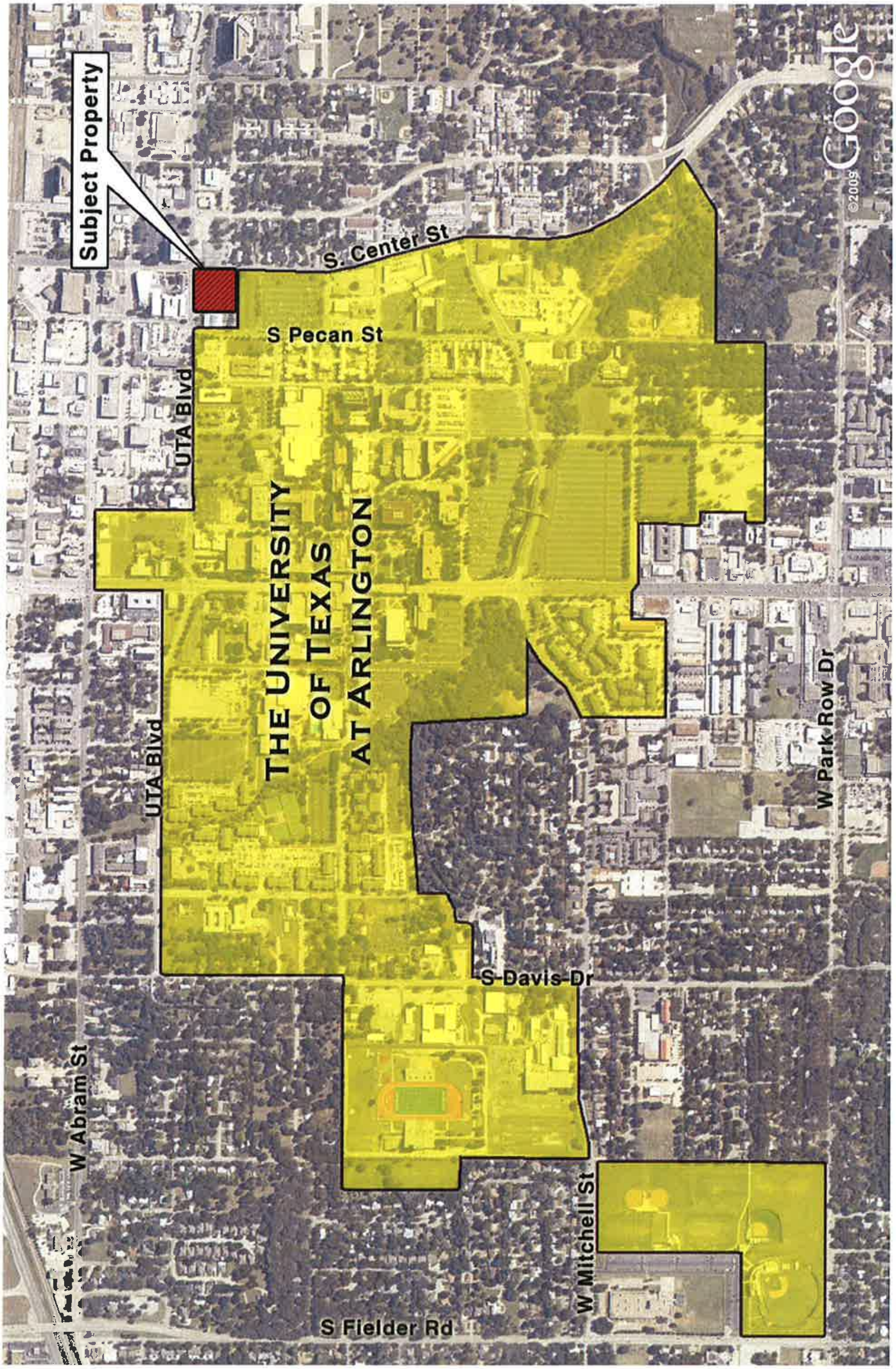
FBCA's land will permit U. T. Arlington to construct an estimated 500 to 600 parking spaces out of the total estimated 1,800 spaces in the garage. In exchange for the conveyance, FBCA will obtain the right to park up to 400 cars in the garage for its members' use for five hours on Sundays and up to 100 cars per day for its members' daytime use on Mondays through Saturdays. U. T. Arlington would, however, have first priority to the parking spaces if specific functions at the Special Events Center so require. The parking rights would be for an initial term of 30 years, with two 10-year renewal options.

The estimated net present value of FBCA's parking rights is in the range of $239,000 to $347,000. This range of values was determined based on parking fees currently charged by U. T. Arlington and on the recognition that no fees are charged in downtown Arlington or at downtown Fort Worth's Sundance Square on weekends and evenings.

Details of this acquisition are summarized in the transaction summary below.

Transaction Summary

Institution:	U. T. Arlington
Type of Transaction:	Acquisition of land in exchange for parking rights
Grantor:	First Baptist Church of Arlington
Total Area:	Approximately 1.466 acres
Improvements:	Surface parking
Location:	Lot 24R, John Huitt Addition, Arlington, Tarrant County, Texas (see map on following page)
Consideration:	Parking rights pursuant to parking agreement for 30 years, with two 10-year renewal options providing for the use by FBCA of 400 parking spaces for church members for five hours on Sundays and 100 daytime parking spaces for church members Mondays through Saturdays
Estimated Value of Parking Rights:	$239,000 to $347,000 net present value
Appraised Value of Land:	$486,000 ($7.60 per square foot) (Goodrich, Schechter & Associates, July 17, 2009)
Intended Use:	Portion of parking garage for U. T. Arlington’s Special Events Center


Subject Property
S. Center St
S Pecan St
UTA Blvd
UTA Blvd
THE UNIVERSITY OF TEXAS AT ARLINGTON
W Park Row Dr
S Davis Dr
W Abram St
W Mitchell St
S Fielder Rd
©2009 Google

2. U. T. System: Report on Transforming Undergraduate Education

REPORT

Executive Vice Chancellor Prior will present a report on Transforming Undergraduate Education. The purpose of the program is to stimulate creative approaches to instruction at the U. T. System institutions that increase student access and success while being cost-efficient or reducing instructional costs. On November 13, 2008, the U. T. System Board of Regents allocated $2 million from the Intermediate Term Fund (ITF) and $500,000 from the Available University Fund (AUF) to support innovative undergraduate proposals.

This was a competitive grant program to fund transformational changes in undergraduate education, targeting significant areas of teaching and learning such as use of technology, reorganization of curriculum, interdisciplinary learning, new pedagogical approaches, learning materials, and new learning spaces.

3. U. T. System: Discussions on academic leadership matters related to interinstitutional collaboration

PURPOSE

Executive Vice Chancellor Prior will lead a presidential discussion and engagement with the Board of Regents on topics relating to interinstitutional collaboration.

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FOR
HEALTH AFFAIRS COMMITTEE

Committee Meeting: 8/19/2009

Board Meeting: 8/20/2009
Austin, Texas

Colleen McHugh, Chairman
James D. Dannenbaum
Janiece Longoria
Wm. Eugene Powell

Wednesday, August 19, 2009 (continued)	**Committee Meeting**	**Board Meeting**	**Page**
4. **U. T. System: Report and discussion related to changes to faculty practice plan bylaws**	*4:35 p.m.* **Report** *Dr. Shine* *Ms. Thomas*	Not on Agenda	**125**
5. **U. T. System: Role of public health programs in the U. T. System**	*4:40 p.m.* **Report** *Dr. Roberta B. Ness, Dean, School of Public Health, U. T. Health Science Center – Houston*	Not on Agenda	**125**
6. **U. T. System: Quarterly report on health matters, including educational issues resulting from the accreditation processes at U. T. System health institutions, the status of Clinical and Translational Science Award programs in the U. T. System, and upcoming conferences sponsored by the U. T. System**	*5:00 p.m.* **Report** *Dr. Shine*	Not on Agenda	**126**
B. ADJOURN MEETING OF HEALTH AFFAIRS COMMITTEE	*5:15 p.m.*		

* * * * *

Thursday, August 20, 2009	**Committee Meeting**
C. CONVENE SPECIAL MEETING OF THE HEALTH AFFAIRS COMMITTEE **Institutional Approaches to Developments in the Health Care Reform Debate** The presidents of the U. T. System health institutions will discuss institutional approaches to developments in the health care reform debate.	*8:00 a.m.* *Chairman McHugh* *Dr. Shine*
D. ADJOURN SPECIAL MEETING	*9:30 a.m.*

1. <u>U. T. System: Approval to set The University of Texas System Professional Medical Liability Benefit Plan premium rates for Fiscal Year 2010, distribute a portion of Plan premium returns, amend the Plan, and adopt a new premium rate structure for medical student externships</u>

RECOMMENDATION

The Chancellor concurs in the recommendation of The University of Texas System Professional Medical Liability Benefit Plan (Plan) Management Committee, chaired by the Vice Chancellor and General Counsel and comprised of the chair, the Executive Vice Chancellor for Health Affairs, and the Executive Vice Chancellor for Business Affairs, after consultation with KPMG LLP, actuary for the Plan, that

a. the premium rates for faculty and residents for Fiscal Year 2010 be reduced by an average of 10% from the rates for Fiscal Year 2009;

b. the cap on institutional premium rates be reduced by $10,000 from $100,000 to $90,000 for Fiscal Year 2010;

c. the premium rates for medical students in Texas and international coverage rates for Fiscal Year 2010 remain unchanged from the rates for Fiscal Year 2009;

d. the Plan be amended to make coverage available for medical student externships outside Texas in an amount up to $2 million per claim and $5 million aggregate per Plan year, along with a new rate structure; and

e. $12.5 million be distributed from Plan returns as follows for Fiscal Year 2010: $10 million to the participating U. T. System institutions based on the institution's loss ratio and $2.5 million to support patient safety efforts in the area of Health Information Technology.

The proposed premium rates for faculty and residents for Fiscal Year 2010 are set forth in Exhibit 1 (Pages 111 - 112). The proposed premium rate structure for medical student externships is set forth in Exhibit 2 (Pages 113 - 114). The proposed distribution of $12.5 million is set forth in Exhibit 3 (Page 115).

BACKGROUND INFORMATION

On March 26, 2008, the Board of Regents endorsed a three-year plan forwarded by the Plan Management Committee to reduce the reserves held in the Plan to industry standard reserve requirements according to generally accepted industry standards. The proposed premium rates are based on the recommended average 10% reduction combined with a factor determined through the annual actuarial assessment of loss experience by institution, with the assumption that no institution's rates would be increased. The recommended premium reductions and distribution are in keeping with the plan to reduce reserves.

Previous distributions were initially based solely on the institution's pro rata share of premiums paid into the Plan in the preceding year; however, last year the distribution plan was based 50% on the pro rata share of premiums and 50% based on the institution's loss ratio, or claims history. In a continuing effort to encourage ever-increasing patient safety and systemic remediation, the recommended $10 million distribution plan for this year is based entirely on the institution's loss ratio.

In addition to the $10 million to be distributed to participating institutions, $2.5 million is recommended for support of patient safety initiatives specifically in the area of Health Information Technology to promote improved networking and management of health information. This funding should support Systemwide attempts to gain stimulus funding for Health Information Technology that is anticipated to require matched funding and would be managed under a grant process by the Executive Vice Chancellor for Health Affairs.

Medical student externships provide a valuable opportunity for medical students to participate in an out-of-state clinical experience that is often the prelude to a medical residency. However, other states usually require higher medical liability limits than the Plan provides in Texas. While the Plan currently provides limits of $1 million per claim and $3 million aggregate for purchase by medical students, some states require even higher coverage. The proposed Plan amendment, set forth below, would permit a higher limit on coverage while the proposed rate structure provides flexibility to accommodate varying coverage limits depending on the jurisdiction and the institutional requirement.

THE UNIVERSITY OF TEXAS SYSTEM PROFESSIONAL

MEDICAL LIABILITY BENEFIT PLAN

ARTICLE VII

LIMITS OF LIABILITY

. . .

Limits of Liability Schedule

The following limits shall apply unless lower liability limits are set by law, in which case the lower limits shall apply:

Staff Physician - $500,000.00 per Liability Claim (up to $1,500,000.00 for all Liability Claims during any one enrollment period)

Resident and Fellows - $100,000.00 per Liability Claim (up to $300,000.00 for all Liability Claims during any one enrollment period)

Medical or Dental Student - $25,000.00 per Liability Claim (up to $75,000.00 for all Liability Claims during any one enrollment period); upon approval by the Plan Administrator or a delegate, ~~$1,000,000.00 per Liability Claim (up to $3,000,000.00 for all Liability Claims during any one enrollment period) for participation in an "away" or off-site experience outside of Texas sanctioned by the U. T. institution and not exceeding three months in duration during any one enrollment period~~ additional limits up to $2,000,000.00 per Liability Claim (up to $5,000,000.00 for all Liability Claims during any one enrollment period) may be made available for student participation in externships outside of Texas that meet the conditions of participation set by the Plan Administrator, or a designee, for student externships

Annual Aggregate - $30,000,000.00 for all Liability Claims for all Participants during any one Plan year

Per Claim Limitation - Plan liability shall be limited to $2,000,000.00 per claim regardless of the number of the claimants or Plan Participants involved in an incident.

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Exhibit 1

The University of Texas System Professional Medical Liability Benefit Plan

Summary of Recommended Annual Rates by Risk Class by Institution

Physician Risk Class 1

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$552	$516
UTSWMC	576	540
UTMB	720	672
UTHSCH	816	768
UTHSCSA	684	636
UTHSCT	756	696
UTAustin	684	636
UTA	684	636
UTSA	684	636

Physician Risk Class 2

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$864	$816
UTSWMC	900	852
UTMB	1,116	1,056
UTHSCH	1,284	1,212
UTHSCSA	1,068	1,008
UTHSCT	1,176	1,104
UTAustin	1,068	1,008
UTA	1,068	1,008
UTSA	1,068	1,008

Physician Risk Class 3

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$1,380	$1,296
UTSWMC	1,428	1,344
UTMB	1,788	1,680
UTHSCH	2,040	1,920
UTHSCSA	1,704	1,596
UTHSCT	1,872	1,752
UTAustin	1,704	1,596
UTA	1,704	1,596
UTSA	1,704	1,596

Physician Risk Class 4

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$2,580	$2,412
UTSWMC	2,676	2,496
UTMB	3,336	3,120
UTHSCH	3,816	3,576
UTHSCSA	3,180	2,976
UTHSCT	3,504	3,276
UTAustin	3,180	2,976
UTA	3,180	2,976
UTSA	3,180	2,976

Exhibit 1 (cont'd)

The University of Texas System Professional Medical Liability Benefit Plan

Summary of Recommended Annual Rates by Risk Class by Institution

Physician Risk Class 5

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$3,792	$3,564
UTSWMC	3,936	3,696
UTMB	4,920	4,620
UTHSCH	5,616	5,280
UTHSCSA	4,680	4,404
UTHSCT	5,148	4,848
UTAustin	4,680	4,404
UTA	4,680	4,404
UTSA	4,680	4,404

General Dentist Risk Class A

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$192	$180
UTSWMC	204	192
UTMB	252	240
UTHSCH	288	276
UTHSCSA	240	228
UTHSCT	264	252
UTAustin	240	228
UTA	240	228
UTSA	240	228

Oral Surgery Risk Class B

Institution	Recommended Rates for 9/1/2009 Faculty	Resident
UTMDACC	$864	$816
UTSWMC	900	852
UTMB	1,116	1,056
UTHSCH	1,284	1,212
UTHSCSA	1,068	1,008
UTHSCT	1,176	1,104
UTAustin	1,068	1,008
UTA	1,068	1,008
UTSA	1,068	1,008

Exhibit 2

The University of Texas System Professional Medical Liability Benefit Plan

2009/2010 - Medical Student Externship Rates

	Daily Rates		
	Option 1	Option 2	Option 3
State Group	$200K/$600K Daily Rates	$1M/$3M Daily Rates	$2M/$5M Daily Rates
A	$0.71	$1.37	$1.68
B	$0.95	$1.83	$2.23
C	$1.24	$2.38	$2.90
D	$1.72	$3.29	$4.14
E	$3.32	$6.39	$8.05

Exhibit 2 (cont'd)

The University of Texas System Professional Medical Liability Benefit Plan

2009/2010 - Medical Student Externship Rates

State Group

A	B	C	D	E
Alabama	Alaska	Arizona	California 2	Florida 2
Arkansas	California 1	Hawaii	D.C.	Michigan 2
Colorado	Connecticut	Illinois 1	Florida 1	New York 2
Georgia	Delaware	Louisiana	Illinois 2	
Idaho	Kansas	Missouri	Michigan 1	
Indiana	Maryland 2	Nevada 2	New York 1	
Iowa	Nevada 1	Ohio 2	Ohio 3	
Kentucky	New Hampshire	Oklahoma	Rhode Island	
Maine	New Jersey	Pennsylvania 2	West Virginia	
Maryland 1	New Mexico	Wyoming		
Massachusetts	North Dakota	CANADA		
Minnesota	Ohio 1			
Mississippi	Utah			
Montana	Virginia 2			
Nebraska				
North Carolina				
Oregon				
Pennsylvania 1				
South Carolina				
South Dakota				
Tennessee				
Vermont				
Virginia 1				
Washington				
Wisconsin				

Group Definition

State	Counties
California 1	Rest of State
California 2	Los Angeles, Orange, San Bernardino
Florida 1	Rest of State
Florida 2	Broward, Dade
Illinois 1	Rest of State
Illinois 2	Cook, DuPage, Madison, McHenry, Kane, Lake, St. Clair, Will
Maryland 1	Rest of State
Maryland 2	City and County of Baltimore
Michigan 1	Rest of State
Michigan 2	Macomb, Oakland, Wayne
Nevada 1	Rest of State
Nevada 2	Clark
New York 1	Rest of State
New York 2	Bronx, Kings, New York, Orange, Queens, Richmond, Rockland, Sullivan, Ulster, Westchester
Ohio 1	Rest of State
Ohio 2	Cuyahoga, Geauga, Huron, Lake, Lorain, Mahoning, Marion, Medina, Stark, Summit
Ohio 3	Ashtabula, Columbiana, Portage, Richland, Trumbull
Pennsylvania 1	Rest of State
Pennsylvania 2	Bucks, Schuylkill, Philadelphia, Montgomery, Delaware
Virginia 1	Rest of State
Virginia 2	Arlington, Fairfax, Fauquier, Gloucester, Isle of Wight, James City, Loudoun, Prince William, Surry, York

Prepared by KPMG LLP
July 27, 2009

Exhibit 3

The University of Texas System Professional Medical Liability Benefit Plan

Proposed Distribution of Plan Returns

Institution	FY2006-FY2008 Premiums Paid	FY2006-FY2008 Claims	Loss Ratio[1]	Distribution (100% Loss Ratio)
UTMDACC	6,759,578	1,607,578	24%	1,797,383
UTSWMC	10,784,983	4,405,118	41%	1,669,764
UTMB	14,823,022	4,062,491	27%	3,420,225
UTHSCH	6,751,371	3,541,054	52%	814,001
Medical Foundation	4,399,518	2,307,521	52%	530,442
UTHSCSA	9,827,360	3,981,511	41%	1,533,908
UTHSCT	584,646	95,457	16%	226,439
UT Austin	105,796	324,093	306%	2,184
UTA	5,794	-	0%	2,244
UTSA	8,803	-	0%	3,410
Subtotal	$54,050,871	$20,324,823	38%	$ 10,000,000
Health Information Technology				$ 2,500,000
TOTAL PROPOSED DISTRIBUTION				**$ 12,500,000**

[1] For academic institutions with a 0% loss ratio, the best health institution loss ratio was applied (UTHSCT).

Prepared by Office of Risk Management
July 27, 2009

2. **U. T. Health Science Center – Houston: Authorization to lease approximately 14,129 square feet of space in the office building at 1616 Guadalupe Street, Austin, Travis County, Texas, from U. T. System Administration for the Austin Regional Campus of the School of Public Health**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Kaiser that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. Health Science Center – Houston, to

a. lease approximately 14,129 square feet of space in the office building at 1616 Guadalupe Street, Austin, Travis County, Texas, from the U. T. System Administration for the Austin Regional Campus of the School of Public Health; and

b. authorize the Executive Director of Real Estate to execute the lease and all documents, instruments, and other agreements on behalf of U. T. System Administration, and authorize the President of U. T. Health Science Center – Houston to execute the lease and all documents, instruments, and other agreements on behalf of the institution, subject to approval of all such documents as to legal form by the Office of General Counsel, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The Austin Regional Campus of the U. T. Health Science Center – Houston School of Public Health has outgrown its current space at 12th and Trinity Streets in Austin, Texas, and needs additional space for its educational mission. The building at 1616 Guadalupe has seven floors, with the first through the fifth floors being beneficially used by U. T. Austin and the sixth and seventh floors being beneficially used by U. T. System Administration.

U. T. System Administration's Office of Facilities Planning and Construction (OFPC), the current occupant of the sixth and seventh floors, has consolidated its operations and therefore has excess space available for lease to U. T. Health Science Center – Houston for use by its School of Public Health. This lease will allow the School of Public Health to accommodate the increasing number of students in its Austin Regional Campus, while allowing OFPC to reduce its space costs.

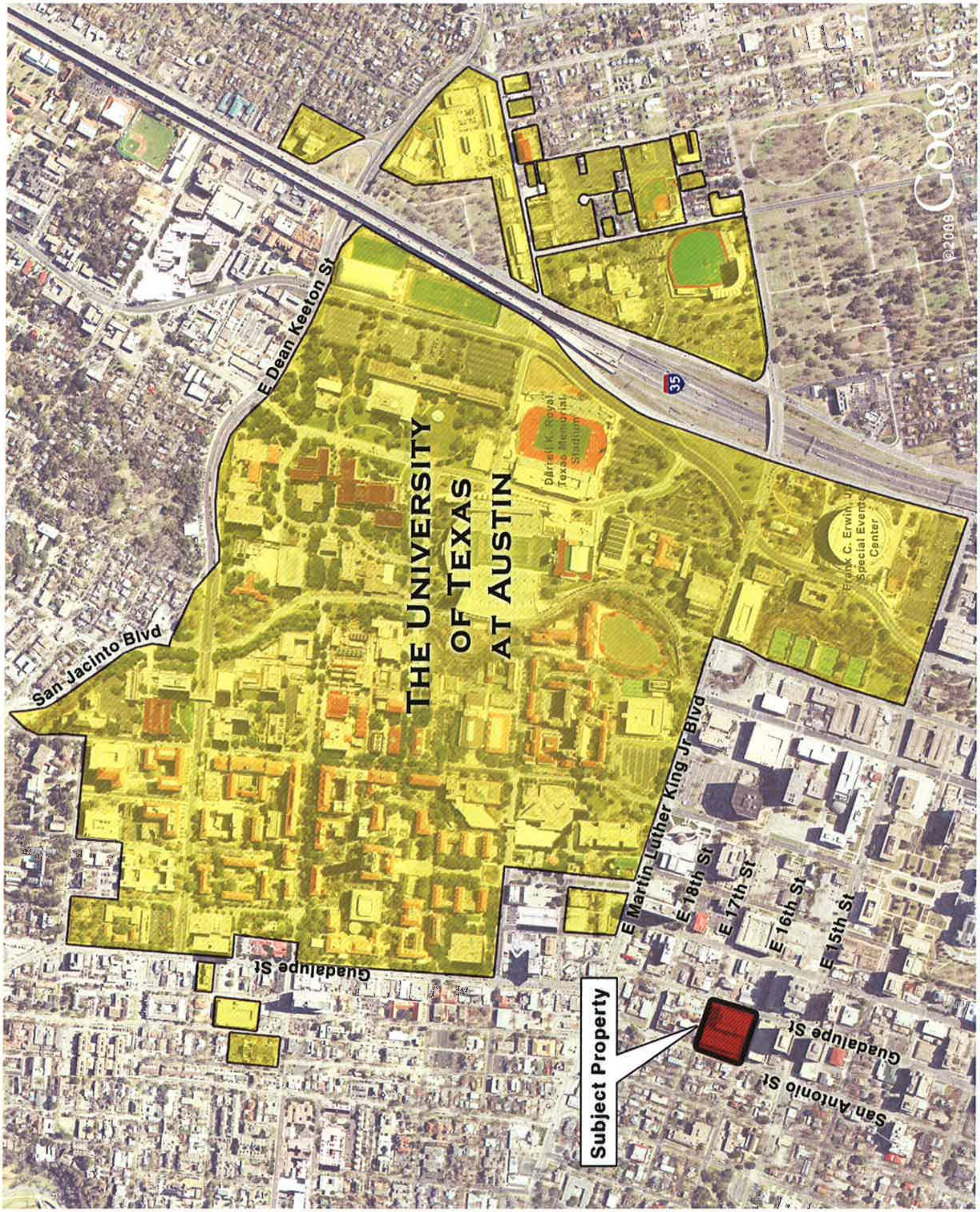
The Austin Regional Campus will use the space for offices for faculty and staff. Existing conference rooms on the sixth and seventh floors will provide space for classroom instruction.

The building was purchased by U. T. Austin in December 2006. The purchase price of $22 million was permanently financed with bonds issued in January 2007 (the Acquisition Bonds). In July 2007, U. T. Austin and U. T. System Administration entered into a memorandum of understanding pursuant to which U. T. System Administration became a part beneficial owner of the building (the sixth and seventh floors). Subsequently, the renovation of the building was approved with a Total Project Cost of $36.3 million, of which $18.925 million was permanently financed with three tranches of bonds issued in March 2008, June 2009, and July 2009 (collectively, the Renovation Bonds). U. T. System Administration reimburses U. T. Austin 100% for the debt service on the Renovation Bonds as and when bond payments are made. Rental to be paid by U. T. Health Science Center – Houston will be that institution's pro rata share of the payments made by U. T. System Administration to U. T. Austin.

Details of this lease, which will be funded with State funds, are summarized in the transaction summary below.

<u>Transaction Summary</u>

Type of Transaction:	Lease
Landlord:	U. T. System Administration
Tenant:	U. T. Health Science Center – Houston
Location:	1616 Guadalupe Street, Austin, Travis County, Texas (see map on following page)
Total Rentable Area:	Approximately 14,129 rentable square feet
Parking:	Approximately 43 spaces in the adjacent parking garage
Annual Rent:	Initial annual base rental will be $23.30 per rentable square foot (approximately $329,206 per year); base rent will be adjusted to reimburse U. T. System Administration on a pro rata basis for the payments U. T. System Administration makes to U. T. Austin for debt service on the Renovation Bonds; when the Renovation Bonds have matured, future base rent will be at market; in addition, the tenant will pay its pro rata share of operating costs, currently estimated at $5.77 per rentable square foot
Lease Term:	10-year initial term with two five-year options to renew
Intended Use:	Office and classroom purposes for the Austin Regional Campus of U. T. Health Science Center – Houston's School of Public Health
Source of Funds:	State funds


THE UNIVERSITY OF TEXAS AT AUSTIN
E Dean Keeton St
San Jacinto Blvd
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Guadalupe St
San Antonio St
Subject Property
35
Darrell K. Royal Texas Memorial Stadium
Frank C. Erwin Jr. Special Events Center
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3. **U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston: Authorization to effectuate the following set of related transactions to facilitate the construction by U. T. Health Science Center – Houston of the Dental Branch Replacement Building: (a) the transfer of use of the following properties from U. T. Health Science Center – Houston to U. T. M. D. Anderson Cancer Center: approximately 3.7 acres of land with improvements located at 6516 M. D. Anderson Boulevard, Houston, Harris County, Texas, and containing the current Dental Branch building; and approximately 5.1 acres of land at 1881 East Road, Houston, Harris County, Texas, and U. T. Health Science Center – Houston's interest in the Joint Research Building (JRB) now under construction on the tract, together with the assumption by U. T. M. D. Anderson of the payment obligations related to the construction of the JRB; (b) the transfer of use from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of a portion of the tunnel linking the JRB and U. T. Health Science Center – Houston's Biomedical Research and Educational Facility, both located on East Road, Houston, Harris County, Texas; (c) the lease by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of approximately 33,775 square feet in the JRB; and (d) the payment by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of $57 million over 20 years**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, President Mendelsohn, and President Kaiser that authorization be granted by the U. T. System Board of Regents, on behalf of U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston, to

a. transfer the use of the following properties from U. T. Health Science Center – Houston to U. T. M. D. Anderson Cancer Center: approximately 3.7 acres of land with improvements located at 6516 M. D. Anderson Boulevard, Houston, Harris County, Texas, and containing the current Dental Branch building; and approximately 5.1 acres of land at 1881 East Road, Houston, Harris County, Texas, and U. T. Health Science Center – Houston's interest in the Joint Research Building (JRB) now under construction on the tract, together with the assumption by U. T. M. D. Anderson of the payment obligations related to the construction of the JRB;

b. transfer the use from U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of a portion of the tunnel linking the JRB and

U. T. Health Science Center – Houston's Biomedical Research and Educational Facility (BREF), both located on East Road, Houston, Harris County, Texas;

c. authorize a lease by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of approximately 33,775 square feet in the JRB for a term of 10 years with two 10-year options to extend;

d. authorize the payment by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of $57 million over 20 years; and

e. authorize the President of U. T. M. D. Anderson Cancer Center and the President of U. T. Health Science Center – Houston to execute all documents, instruments, and other agreements, subject to approval of all such documents as to legal form by the Office of General Counsel and the Executive Director of Real Estate, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

To facilitate U. T. Health Science Center – Houston's construction, in a single phase, of its proposed Dental Branch Replacement Building within the U. T. Research Park, U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston propose the transfer of use of certain properties, a lease by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston of most of a floor in the JRB, and cash payments by U. T. M. D. Anderson Cancer Center to U. T. Health Science Center – Houston.

U. T. Health Science Center – Houston will transfer use of its existing Dental Branch facility, consisting of a 225,000 square foot building on approximately 3.7 acres of land located at 6516 M. D. Anderson Boulevard, adjacent to U. T. M. D. Anderson Cancer Center's main hospital complex, to U. T. M. D. Anderson Cancer Center by June 30, 2014. The existing Dental Branch facility was built in 1955 and is obsolete; any renovations would require costly upgrading and remediation.

The JRB is a six-story building of approximately 315,000 square feet that is currently being constructed at 1881 East Road on 5.1 acres within the U. T. Research Park. U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston have been collaborating on the construction and development of the JRB. The institutions originally contemplated that the JRB would be owned for use by both U. T. M. D. Anderson Cancer Center and U. T. Health Science Center – Houston, with U. T. Health Science Center – Houston having the exclusive permanent use of the fifth and sixth floors in the JRB. The land for the JRB was contributed by U. T. Health Science Center – Houston.

U. T. Health Science Center – Houston would like to transfer use of the land beneath the JRB and use of the fifth and sixth floors and two shared floors of the JRB to U. T. M. D. Anderson Cancer Center. U. T. M. D. Anderson Cancer Center will then lease most of the sixth floor, in shell condition, and an office on the first floor, to U. T. Health Science Center – Houston for a term of 10 years, with two 10-year options to extend.

U. T. M. D. Anderson Cancer Center will transfer use to U. T. Health Science Center – Houston of the tunnel connecting the JRB to the BREF. Although U. T. M. D. Anderson Cancer Center built this tunnel, U. T. Health Science Center – Houston became responsible, through an agreement between the institutions in 2008, for the operating expenses of this tunnel.

U. T. M. D. Anderson Cancer Center would gain land adjacent to its main hospital complex, in the heart of the Texas Medical Center, and additional research space in the JRB. U. T. Health Science Center – Houston would gain access to the JRB via the tunnel for use with BREF projects, funding sufficient to enable it to build the Dental Branch Replacement Building in one phase, and the release from construction obligations related to the JRB. Both institutions consolidate their use of real property. An agenda item is concurrently before the Facilities Planning and Construction Committee for the design development approval of the Dental Branch Replacement Building (see Item 11 on Page 143).

U. T. M. D. Anderson Cancer Center proposes to pay $57,000,000 over a period of 20 years to U. T. Health Science Center – Houston to reconcile the various transfers of use and financial obligations. Within 30 days after the effective date of the agreement between the two institutions, the Cancer Center would make a payment of $2.5 million plus the first annual installment payment of $2.725 million, with subsequent installment payments of $2.725 million each year thereafter through 2028. In addition, U. T. Health Science Center – Houston would benefit from its below-market lease of most of the sixth floor of the JRB.

U. T. M. D. Anderson Cancer Center would receive the use of the existing Dental Branch facility and the land beneath it, and would be responsible for demolition and environmental remediation costs of the facility. U. T. M. D. Anderson Cancer Center would also receive the use and benefit of the land beneath the JRB and benefits from the use of the fifth and sixth floors of the JRB and use rights to two floors of shared space, while accepting responsibility for all costs related to the construction of the JRB shell and shared spaces and relieving U. T. Health Science Center – Houston of construction obligations.

U. T. M. D. Anderson Cancer Center's Hospital Revenues will be used to fund its payments under the proposed property exchange; U. T. Health Science Center – Houston will use indirect cost recovery funds to fund its lease payment obligation. The terms and conditions of the series of transactions are specified in the transaction summary on the following page.

<u>Transaction Summary</u>

Transfer of use of existing Dental Branch building

Transferor:	U. T. Health Science Center – Houston
Transferee:	U. T. M. D. Anderson Cancer Center
Total Area:	Approximately 3.7 acres
Improvements:	A 225,000 square foot multistory facility built in 1955
Location:	6516 M. D. Anderson Boulevard, Houston, Harris County, Texas (see map on Page 124)
Intended Use:	Future programmed campus expansion

Transfer of use of JRB land

Transferor:	U. T. Health Science Center – Houston
Transferee:	U. T. M. D. Anderson Cancer Center
Total Area:	Approximately 5.1 acres
Improvements:	Shell research facility containing approximately 315,000 square feet (presently under construction)
Location:	1881 East Road, Houston, Harris County, Texas (see map on Page 124)
Intended Use:	Laboratory, research, and other uses consistent with the vision of U. T. M. D. Anderson Cancer Center

Transfer of use of fifth and sixth floors of JRB and use rights on two floors of shared space

Transferor:	U. T. Health Science Center – Houston
Transferee:	U. T. M. D. Anderson Cancer Center
Total Area:	Approximately 67,100 square feet on the fifth and sixth floors, and use rights to two floors of shared space
Improvements:	JRB shell research facility totaling approximately 315,000 square feet under construction

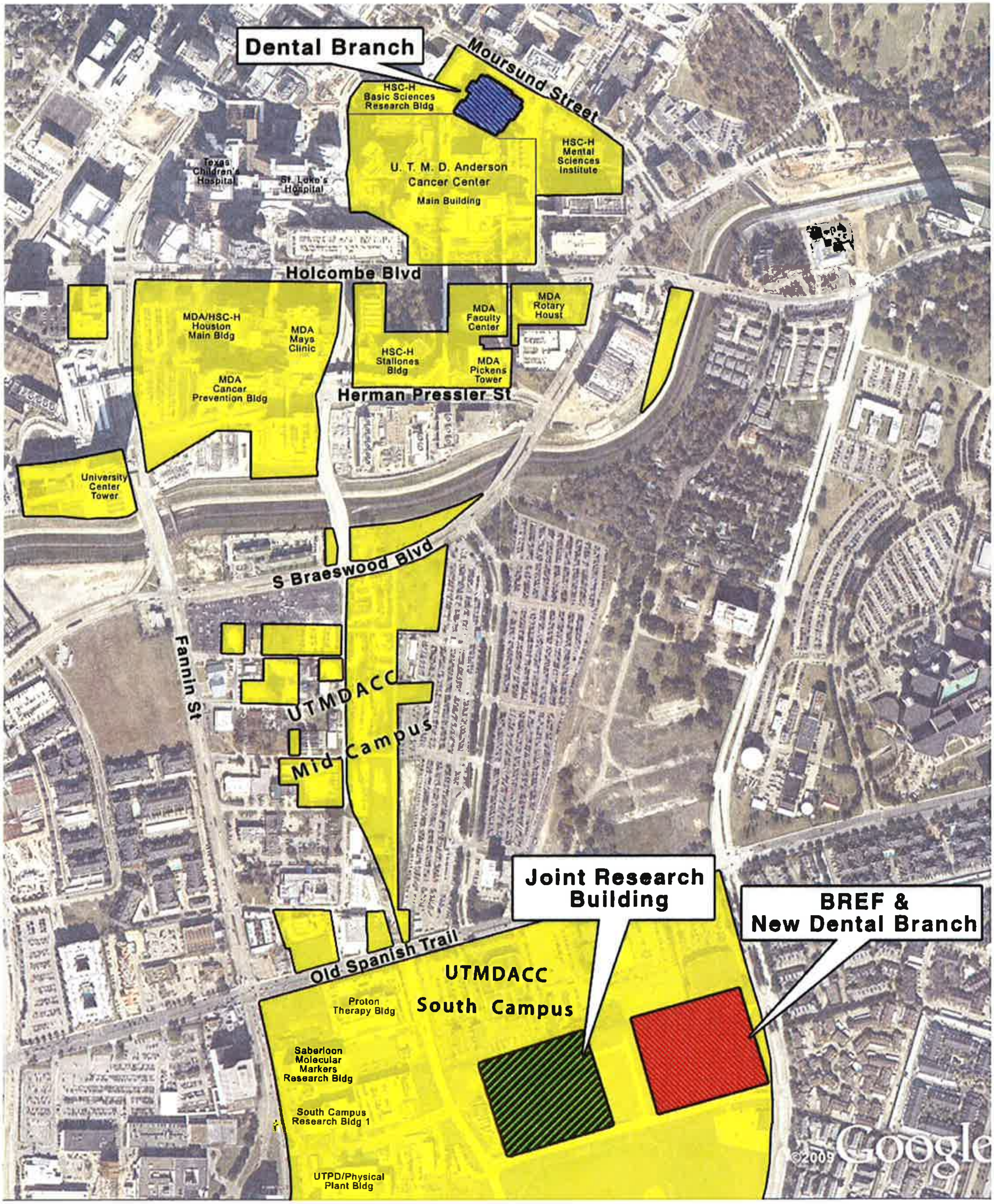
Location:	1881 East Road, Houston, Harris County, Texas (see map on Page 124)
Intended Use:	Laboratory, research, office, and other uses consistent with the mission of U. T. M. D. Anderson Cancer Center

Transfer of use of BREF tunnel

Transferor:	U. T. M. D. Anderson Cancer Center
Transferee:	U. T. Health Science Center – Houston
Improvements:	Tunnel
Location:	Underground, between the JRB at 1881 East Road and the BREF, Houston, Harris County, Texas (see map on Page 124)
Intended Use:	Campus support and access between JRB and BREF

Lease of sixth floor of JRB

Tenant:	U. T. Health Science Center – Houston
Landlord:	U. T. M. D. Anderson Cancer Center
Premises:	Approximately 33,582 square feet of shell space on the sixth floor, and 193 square feet of shell space on the first floor of JRB, 1881 East Road, Houston, Harris County, Texas (see map on Page 124)
Improvements:	The tenant is finishing out the premises with improvements consisting of laboratory, research, and office facilities
Rent:	$570,000 annually ($17.00 per square foot) with the first two years free; rental was determined based on the recovery of construction costs; rental increases for each renewal term may not exceed 15% of the prior term's rent; the tenant will be responsible for all direct operating expenses and 15% of shared operating expenses.
Lease Term:	10 years, plus initial design, permitting, and construction period (not to exceed six months), and two 10-year renewal options
Uses:	Laboratory, research, office, and other uses consistent with the mission of U. T. Health Science Center – Houston


Dental Branch
Moursund Street
HSC-H Basic Sciences Research Bldg
HSC-H Mental Sciences Institute
U. T. M. D. Anderson Cancer Center
Main Building
Texas Children's Hospital
St. Luke's Hospital
Holcombe Blvd
MDA/HSC-H Houston Main Bldg
MDA Mays Clinic
MDA Cancer Prevention Bldg
HSC-H Stallones Bldg
MDA Faculty Center
MDA Rotary Houst
MDA Pickens Tower
Herman Pressler St
University Center Tower
S Braeswood Blvd
Fannin St
UTMDACC
Mid Campus
Joint Research Building
BREF &
New Dental Branch
Old Spanish Trail
UTMDACC
South Campus
Proton Therapy Bldg
Saberloon Molecular Markers Research Bldg
South Campus Research Bldg 1
UTPD/Physical Plant Bldg
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4. U. T. System: Report and discussion related to changes to faculty practice plan bylaws

Executive Vice Chancellor Shine and Vice Chancellor Thomas will report on changes to the faculty practice plan bylaws for the U. T. System health institutions.

REPORT

On February 7, 2008, the U. T. System Board of Regents approved substantial revisions to the template for model bylaws for the faculty practice plans, titled Medical Service, Research and Development Plans (MSRDP), or with respect to U. T. M. D. Anderson Cancer Center, the Physicians Referral Service (PRS), at U. T. System health institutions. The Board also authorized the Executive Vice Chancellor for Health Affairs to approve implementation of institutional faculty practice plans submitted by the presidents of U. T. System health institutions.

In coordination with the Office of Health Affairs and the Office of General Counsel, the U. T. System health institutions have submitted faculty practice plans in compliance with the model bylaws approved in February 2008.

Supplemental Materials: U. T. System health institutions' revised bylaws on Pages 110 - 240 of Volume 2.

5. U. T. System: Role of public health programs in the U. T. System

REPORT

Dr. Roberta B. Ness, Dean of the School of Public Health at U. T. Health Science Center – Houston, will report on the scope and impact of public health programs in the U. T. System and public health programs at the U. T. Health Science Center – Houston and its regional campuses.

Supplemental Materials: PowerPoint presentation on Pages 241 - 255 of Volume 2.

6. **U. T. System: Quarterly report on health matters, including educational issues resulting from the accreditation processes at U. T. System health institutions, the status of Clinical and Translational Science Award programs in the U. T. System, and upcoming conferences sponsored by the U. T. System**

REPORT

Executive Vice Chancellor Shine will report on health matters of interest to the U. T. System, including educational issues resulting from the accreditation processes at U. T. System health institutions, the status of Clinical and Translational Science Award programs in the U. T. System, and upcoming conferences sponsored by the U. T. System. This is a quarterly update to the Health Affairs Committee of the U. T. System Board of Regents.

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15. **U. T. Southwestern Medical Center – Dallas: Library, Equipment, Repair and Rehabilitation (LERR) 09 - Renovation of Lab and Office Space V - Amendment of the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost; approval to reallocate approved funding; and authorization of expenditure of additional funds (Final Board approval)**	*4:00 p.m.* **Action** *Mr. O'Donnell*	**Action**	**152**
16. **U. T. Southwestern Medical Center – Dallas: North Campus Phase 5 - Amendment of the FY 2010-2015 Capital Improvement Program to revise the funding sources; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt (Final Board approval)**	*4:05 p.m.* **Action** *Mr. O'Donnell*	**Action**	**153**
17. **U. T. Medical Branch – Galveston: Blocker Burn Unit Renovation, Labor and Delivery Renovation, and John Sealy Hospital Modernization - Amendment of the FY 2010-2015 Capital Improvement Program to combine the three projects and redesignate as the John Sealy Hospital Modernization and approval to increase the total project cost; and revise the funding sources (Final Board approval)**	*4:10 p.m.* **Action** *Mr. O'Donnell*	**Action**	**155**
18. **U. T. M. D. Anderson Cancer Center: Mid-Campus Building No. 1 (formerly Administrative Support Building) - Amendment of the FY 2010-2015 Capital Improvement Program to revise the funding sources; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt (Final Board approval)**	*4:13 p.m.* **Action** *Mr. O'Donnell*	**Action**	**157**
Adjourn	*4:15 p.m.*		

1. U. T. San Antonio: 2009 Campus Master Plan Update

REPORT

President Romo and Mr. Michael O'Donnell, Associate Vice Chancellor for Facilities Planning and Construction, will present an updated 2009 Campus Master Plan for U. T. San Antonio along with Mr. Carl L. Gromatzky, Principal from the architectural firm of Barnes Gromatzky Kosarek that facilitated and documented the strategic discussion that has resulted in the updated Campus Master Plan.

At the time the U. T. San Antonio Campus Master Plan was approved by The University of Texas System Board of Regents on November 16, 2000, it was anticipated that the Plan would be updated every 7 to 10 years.

Executive Summary

The Campus Master Plan seeks to reestablish the urban character and connectivity to the landscape set forth in the original concept for the Main Campus and extends those concepts to the Downtown Campus and the recently acquired UTSA Park West area of the Main Campus.

The Plan for the Main Campus reinforces the original core of the campus - the Sombrilla, the Paseos, and the buildings that define them - and extends its influence outward to organize the site. The plan creates an extended and interconnected network of vehicular and pedestrian streets. It provides building sites and establishes a green reserve of primary campus open spaces. The plan proposes that a new athletics complex and mixed use development be constructed on the recently acquired land adjoining Loop 1604 to the west of the Main campus, and that the eastern portion of the Main campus be preserved in a natural state.

The Campus Master Plan proposes that, as the Downtown Campus grows, it incorporate the entire block west of South Frio Street and that architectural and landscape design for the entire campus be developed to create a coherent ensemble.

The UTSA HemisFair Park Campus is the home of the Institute of Texan Cultures. The City of San Antonio is currently conducting a separate master plan for the entire HemisFair area. U. T. San Antonio will conduct an additional master plan for the HemisFair Park Campus after the City's plan is complete. The scope of this update is limited to a review of the HemisFair Park Campus' wayfinding systems and recommendations for their improvement.

Supplemental Materials: PowerPoint presentation on Pages 256 - 283 of Volume 2.

2. <u>U. T. System: Capital Improvement Program Update</u>

<u>REPORT</u>

Mr. Michael O'Donnell, Associate Vice Chancellor for Facilities Planning and Construction, will provide the annual update of the Capital Improvement Program (CIP) pursuant to the *Rules and Regulations*, Rule 80301, Section 1. The CIP consists of major new construction and repair and rehabilitation projects to be implemented and funded from institution and Systemwide revenue sources. Projects included in the CIP correspond to the highest priority needs identified by institutional administration.

3. <u>U. T. System Board of Regents: Amendment of Section 3 regarding definition of criteria of major and minor projects in Regents' *Rules and Regulations*, Rule 80301 (Capital Improvement Program); Rule 80402 (Major Construction and Repair and Rehabilitation Projects); Rule 80403 (Minor Construction and Repair and Rehabilitation Projects); Rule 80404 (Institutional Management of Major Construction and Repair and Rehabilitation Projects); and Rule 80901 (Constitutional and Legislative Restrictions on Capital Improvements)</u>

<u>RECOMMENDATION</u>

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel that the following Regents' *Rules and Regulations* be amended as set forth below in congressional style:

a. Amend the Definition of Major Project in Rules 80301 (Capital Improvement Program), 80402 (Major Construction and Repair and Rehabilitation Projects), and 80404 (Institutional Management of Major Construction and Repair and Rehabilitation Projects) as follows:

3. Definitions

Major Project – Any project that meets one or more of the following criteria: 1) new building construction with a value of ~~more than $1~~ <u>$4</u> million <u>or more</u>, 2) road, paving, and repair and rehabilitation projects with a value of ~~more than $2~~ <u>$4</u> million <u>or more</u>, 3) any project determined by the Board to be architecturally or historically significant, 4) any project that is debt financed [Revenue Financing System (RFS), Tuition Revenue Bond (TRB), Permanent University Fund (PUF)] regardless of dollar value, and 5) any campus planning efforts that are intended to result in a capital project meeting one or more of these criteria.

b. Amend the Definition of Minor Project in Rule 80403 (Minor Construction and Repair and Rehabilitation Projects) as follows:

3. Definitions

Minor Project – New building construction and road, paving, and repair and rehabilitation projects of ~~$1~~ less than $4 million that are not funded in any part with debt ~~or less and road, paving, and repair and rehabilitation projects of $2 million or less~~.

c. Amend the Authority to Increase Project Cost in Section 7 of Rule 80402 (Major Construction and Repair and Rehabilitation Projects) to be consistent with Section 4 of Rule 80402 as follows:

Sec. 7 Authority to Increase Project Cost. The Chancellor, with the advice of the appropriate Executive Vice Chancellor, Office of Finance, and institutional president, is authorized to increase the approved Total Project Cost not more than 10% or $500,000, whichever is greater. To provide funding for the increase, the Chancellor may reallocate funding between or among approved projects at a single institution if funding for such projects has previously been authorized or approved funding from some other source available to the institution.

d. Amend the Authority to Increase Project Cost in Section 7 of Rule 80404 (Institutional Management of Major Construction and Repair and Rehabilitation Projects) to be consistent with Section 5 of Rule 80404 as follows:

Sec. 7 Authority to Increase Project Cost. The institutional president, with the advice of the appropriate Executive Vice Chancellor, is authorized to increase the approved Total Project Cost not more than 10% or $500,000, whichever is greater. To provide funding for the increase, the institutional president may reallocate funding between or among approved projects at the institution if funding for such projects has previously been authorized or is from some other source of approved funds available to the institution.

e. Amend Rule 80901 (Constitutional and Legislative Restrictions on Capital Improvements) as follows:

Sec. 1 Approval by Coordinating Board. …

1.1 Unless otherwise authorized by law, new construction and major repair and rehabilitation projects ~~in excess~~ of ~~$1~~ $4 million or more ~~and major repair and rehabilitation projects in excess of $2 million~~ must be approved by the Texas Higher Education Coordinating Board. Format for submission will be as prescribed by the Coordinating Board.

Submission will be prepared by the institution, in consultation with and assisted by System Administration's Office of Facilities Planning and Construction, if necessary, and forwarded to System Administration for review, approval, and handling of submission. It is anticipated that necessary documents will be submitted to the Coordinating Board when the project scope and estimated cost are sufficiently defined to meet the Coordinating Board's requirements for approval. Normally, submission will be made after the institutional president, Chancellor, ~~and~~ or the Board of Regents have approved the Design Development Plans and the related cost estimate.

Sec. 2 Delegation by Board of Regents. The Texas Higher Education Coordinating Board requires a signed Board of Regents Certification form ~~has delegated to its Commissioner approval authority for certain projects qualifying~~ under Coordinating Board Rule 17.21. ~~Coordinating Board Rule 17.46. This delegation requires a certification that the project meets specified criteria.~~ The authority to execute this certification for the Board of Regents is delegated to the Executive Vice Chancellor for Business Affairs or the Associate Vice Chancellor for Facilities Planning and Construction.

BACKGROUND INFORMATION

In response to Senate Bill 1796 from the 81st Texas Legislature, the Texas Higher Education Coordinating Board has revised its Board Rules applying to construction project approval thresholds. The new Coordinating Board Rules require all new construction and repair and rehabilitation projects with a cost of $4 million or greater be submitted for approval.

The proposed amendments to the current Regents' *Rules and Regulations* will provide alignment with the revised Coordinating Board Rules. The proposed amendments to Rules 80301, 80402, and 80404 would revise the definition of a Major Project requiring addition to the CIP to include new construction and repair and rehabilitation projects with a value of $4 million or greater in lieu of the previous $1 million and $2 million thresholds. The proposed amendment to Rule 80403 would revise the definition of a Minor Project to include projects that are less than $4 million in lieu of the previous thresholds. The proposed amendment to Rule 80901 would revise the threshold of projects to $4 million for new construction and repair and rehabilitation projects and includes the institutional President on those approving design development as delegated in Rule 80404.

The proposed changes would be effective September 1, 2009.

4. **U. T. Arlington: FY 10 High Priority Fire and Life Safety Corrections Phase 2 - Amendment of the FY 2010-2015 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; and authorization of institutional management (Final Board approval)**

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. System Board of Regents amend the FY 2010-2015 Capital Improvement Program (CIP) to include the FY 10 High Priority Fire and Life Safety Corrections Phase 2 project at The University of Texas at Arlington as follows:

Project No.:	301-498	
Institutionally Managed:	Yes ☒ No ☐	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	February 2011	
Total Project Cost:	Source	Proposed
	Permanent University Fund Bond Proceeds	$1,400,000

a. approve a total project cost of $1,400,000 with funding from Permanent University Fund (PUF) Bond Proceeds;

b. appropriate funds; and

c. authorize U. T. Arlington to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

BACKGROUND INFORMATION

Previous Board Action

On August 14, 2008, the Board approved the allocation of $1,400,000 from PUF Bond Proceeds for Fiscal Year 2010 for the project.

Project Description

The project is the second of three allocations to address various fire and life safety deficiencies identified as high priority items. The scope of the project includes fire protection systems on two floors in the Library, means of egress deficiencies, emergency egress lighting systems in additional buildings including the Business Building, Physical Education Building, and Pickard, Woolf, and Preston Halls. Other specific areas being addressed include handrail corrections, installation of fire doors in several buildings, and upgrading a fire protection water line on South Oak Street.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Design development plans and authorization of expenditure of funding will be approved by the President at a later date. It has been determined that this project would best be managed by the U. T. Arlington Facility Management personnel who have the experience and capability to manage all aspects of the work.

5. U. T. Austin: FY 10 High Priority Fire and Life Safety Corrections - Phase 2 - Amendment of the FY 2010-2015 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; and authorization of institutional management (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Powers that the U. T. System Board of Regents amend the FY 2010-2015 Capital Improvement Program (CIP) to include the FY 10 High Priority Fire and Life Safety Corrections - Phase 2 project at The University of Texas at Austin as follows:

Project No.:	102-499	
Institutionally Managed:	Yes ☒ No ☐	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	February 2011	
Total Project Cost:	Source	Proposed
	Permanent University Fund Bond Proceeds	$4,800,000

a. approve a total project cost of $4,800,000 with funding from Permanent University Fund (PUF) Bond Proceeds;

b. appropriate funds; and

c. authorize U. T. Austin to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

BACKGROUND INFORMATION

Previous Board Action

On August 14, 2008, the Board approved the allocation of $4,800,000 from PUF Bond Proceeds for Fiscal Year 2010 for the project.

Project Description

The project addresses various fire and life safety deficiencies identified as high priority items including fire protection systems. The project will include design and installation of fire sprinkler and fire alarm systems, and correction of egress deficiencies including emergency lighting and door hardware. The buildings involved will include the Chemical and Petroleum Engineering Building, the Music Recital Hall, Painter Hall, Goldsmith Hall, Sid Richardson Hall, and the Main Building.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Design development plans and authorization of expenditure of funding will be approved by the President at a later date. It has been determined that this project would best be managed by the U. T. Austin Facility Management personnel who have the experience and capability to manage all aspects of the work.

6. U. T. Medical Branch – Galveston: FY 09 High Priority Fire and Life Safety Projects - University Hospital Clinics Building - Amendment of the FY 2010-2015 Capital Improvement Program to redesignate the project as the FY 09/FY 10 High Priority Fire and Life Safety Project - University Hospital Clinics Building; approval to increase the total project cost; and appropriation of additional funds (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Callender that the U. T. System Board of Regents approve the recommendations for the FY 09 High Priority Fire and Life Safety Projects - University Hospital Clinics Building at The University of Texas Medical Branch at Galveston as follows:

Project No.:	601-454
Institutionally Managed:	Yes ☒ No ☐
Project Delivery Method:	Competitive Sealed Proposals
Substantial Completion Date:	March 2011

Total Project Cost:	Source	Current	Proposed
	Permanent University Fund Bond Proceeds	$ 600,000	$1,200,000
	Hospital Revenues	$ 600,000	$ 600,000
		$1,200,000	$1,800,000

a. redesignate the project as the FY 09/FY 10 High Priority Fire and Life Safety Project - University Hospital Clinics Building;

b. increase the total project cost from $1,200,000 to $1,800,000; and

c. appropriate additional funding of $600,000 from Permanent University Fund (PUF) Bond Proceeds.

BACKGROUND INFORMATION

Previous Board Actions

On August 14, 2008, the Board approved the allocation of $600,000 from PUF Bond Proceeds for Fiscal Year 2009 and for Fiscal Year 2010. On November 13, 2008, the project was included in the CIP with a total project cost of $1,200,000 with funding of $600,000 from PUF Bond Proceeds and $600,000 from Hospital Revenues and authorized institutional management.

Project Description

This institutionally managed project will address installation of fire sprinklers on all floors of the University Hospital Clinics Building. The increase to the total project cost will complete the repairs and renovations needed to upgrade the building to current life safety codes.

Design development plans and authorization of expenditure of funding will be approved by the President at a later date.

7. U. T. Health Science Center – San Antonio: FY 10 High Priority Fire and Life Safety Projects - Amendment of the FY 2010-2015 Capital Improvement Program to include project; approval of total project cost; appropriation of funds; and authorization of institutional management (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Henrich that the U. T. System Board of Regents amend the FY 2010-2015 Capital Improvement

Program (CIP) to include the FY 10 High Priority Fire and Life Safety Projects at The University of Texas Health Science Center at San Antonio as follows:

Project No.:	402-500	
Institutionally Managed:	Yes ☒ No ☐	
Project Delivery Method:	Competitive Sealed Proposals	
Substantial Completion Date:	May 2010	
Total Project Cost:	Source	Proposed
	Permanent University Fund Bond Proceeds	$1,700,000

a. approve a total project cost of $1,700,000 with funding from Permanent University Fund (PUF) Bond Proceeds;

b. appropriate funds; and

c. authorize U. T. Health Science Center – San Antonio to manage the total project budgets, appoint architects, approve facility programs, prepare final plans, and award contracts.

BACKGROUND INFORMATION

Previous Board Action

On August 14, 2008, the Board approved the allocation of $1,700,000 from PUF Bond Proceeds for Fiscal Year 2010 for the project.

Project Description

The project will include installing a fire sprinkler system and upgrading the fire alarm system in the Lecture Hall Building.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Design development plans and authorization of expenditure of funding will be approved by the President at a later date. It has been determined that this project would best be managed by the U. T. Health Science Center – San Antonio Facility Management personnel who have the experience and capability to manage all aspects of the work.

8. **U. T. Medical Branch – Galveston: Hurricane Ike Recovery Projects - Academic and Business Buildings, Healthcare Buildings, Infrastructure, and Research Buildings - Amendment of the FY 2010-2015 Capital Improvement Program to include projects; approval of total project costs; and appropriation of funds (Final Board approval)**

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Callender that the U. T. System Board of Regents amend the FY 2010-2015 Capital Improvement Program (CIP) to include the Hurricane Ike Recovery Projects – Academic and Business Buildings, Healthcare Buildings, Infrastructure, and Research Buildings at The University of Texas Medical Branch at Galveston as follows:

Project Delivery Method:	Construction Manager at Risk	
Substantial Completion Date:	November 2014	
Academic and Business Buildings (Project No. 601-504) Total Project Cost:	Source	Proposed
	FEMA Insurance Claims	$109,367,000
	Private Insurance Claims	$ 16,283,000
	State Matching Funds (Unexpended Plant Funds)	$ 36,455,000
		$162,105,000
Healthcare Buildings (Project No. 601-505) Total Project Cost:	Source	Proposed
	FEMA Insurance Claims	$183,284,000
	Private Insurance Claims	$ 27,289,000
	State Matching Funds (Unexpended Plant Funds)	$ 61,095,000
		$271,668,000
Infrastructure (Project No. 601-506) Total Project Cost:	Source	Proposed
	FEMA Insurance Claims	$ 98,522,000
	Private Insurance Claims	$ 14,669,000
	State Matching Funds (Unexpended Plant Funds)	$ 32,841,000
		$146,032,000
Research Buildings (Project No. 601-507) Total Project Cost:	Source	Proposed
	FEMA Insurance Claims	$ 58,827,000
	Private Insurance Claims	$ 8,759,000
	State Matching Funds (Unexpended Plant Funds)	$ 19,609,000
		$ 87,195,000

a. approve a total project cost of $162,105,000 with funding of $109,367,000 from Federal Emergency Management Agency (FEMA) Insurance Claims, $16,283,000 from Private Insurance Claims, and $36,455,000 from State Matching Funds (Unexpended Plant Funds) for the Academic and Business Buildings;

b. approve a total project cost of $271,668,000 with funding of $183,284,000 from FEMA Insurance Claims, $27,289,000 from Private Insurance Claims; and $61,095,000 from State Matching Funds (Unexpended Plant Funds) for Healthcare Buildings;

c. approve a total project cost of $146,032,000 with funding of $98,522,000 from FEMA Insurance Claims, $14,669,000 from Private Insurance Claims; and $32,841,000 from State Matching Funds (Unexpended Plant Funds) for Infrastructure;

d. approve a total project cost of $87,195,000 with funding of $58,827,000 from FEMA Insurance Claims, $8,759,000 from Private Insurance Claims, and $19,609,000 from State Matching Funds (Unexpended Plant Funds) for Research Buildings; and

e. appropriate funds.

BACKGROUND INFORMATION

The academic and business buildings, healthcare buildings, infrastructure, and research buildings were severely damaged due to the flooding that inundated the U. T. Medical Branch – Galveston (UTMB) campus during Hurricane Ike in September 2008. The following scopes of work propose to repair the damaged facilities consistent with the "Guiding Principles for Future Construction" presented in the UTMB Hurricane Mitigation Study by Walter P. Moore and Associates dated December 2008.

The Academic and Business Buildings scope of work will include repair and mitigation work in over 20 buildings serving academic and business functions. The work involves repair and mitigation of all first floor spaces, crawl spaces, basement areas, building elevators, mechanical, electrical, and plumbing (MEP) systems, heating, ventilation, and air conditioning (HVAC) units, security and life safety systems, telecommunication systems, and building envelope repairs. Some first floor building areas affected include office space, classrooms, and support spaces.

The Healthcare Buildings scope of work will include repair and mitigation work in 10 adjacent/connected hospital and healthcare buildings. The work involves repair and mitigation of first floor spaces, crawl spaces, basement areas, building elevators, roof repair, windows and building envelope, MEP systems, building utilities, HVAC units, security and life safety systems, air quality, medical gas systems, and additional support services. These buildings housed many of the support facilities for the hospital, and work will likely include relocation of kitchen, pharmacy, clinical laboratories, and core infrastructure for the complex.

Infrastructure repairs will involve campus-wide distribution systems including: cathodic protection, potable water, fire alarm system communications, fire suppression, domestic water, storm sewer, diesel supply loop, underground fuel tanks, building card readers, security systems, aboveground propane tanks, electrical emergency power, steam transmission, chilled water systems, electrical power, telecommunication systems, underground telecommunication and data cabling, condensate return system, and elevator systems.

The Research Buildings scope of work will include repair and mitigation work in 10 research buildings on the campus. This work involves repair and mitigation of all first floor building spaces, basement areas, crawl spaces, building elevators, MEP systems, HVAC units, roof repairs, building envelope, telecommunications, and security and life safety systems. First floor building areas affected include research laboratory space and support space.

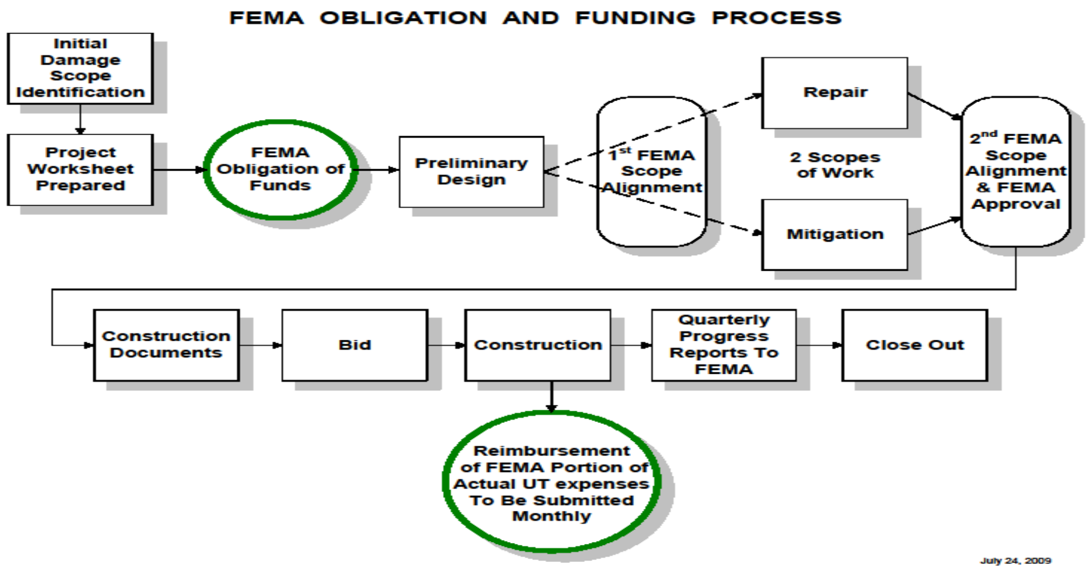
The combined total for the Hurricane Ike Recovery projects is $667,000,000 with funding of $450,000,000 from FEMA Insurance Claims, $67,000,000 from Private Insurance Claims, and $150,000,000 from State Matching Funds (Unexpended Plant Funds).

It is essential that the campus be returned to a fully functioning level and that appropriate mitigation strategies be provided to protect the campus from future weather events.

To effectively manage this critical program, the Office of Facilities Planning and Construction (OFPC) has created a new regional team, increasing campus support from eight staff to 18, including the following positions: Regional Program Manager (new); three Senior Project Managers (two new); one Senior Resident Construction Manager; three Project Managers (two new); seven Construction Inspectors (three new); one Program Analyst (new); and two Administrative Assistants (one new).

OFPC and U. T. System staff will work as an integrated team to manage the architectural, engineering, and construction services for each of the projects. Recognizing the importance of carefully defining, documenting, processing, and reporting FEMA-funded work, U. T. Medical Branch – Galveston has engaged J. L. Witt and Associates, a firm with expertise in packaging and coordinating FEMA funding applications. Further, the campus is currently procuring the services of an accounting firm focused on the repair/mitigation activities and versed in FEMA requirements to provide a fully auditable record of transactions and funding. OFPC's program analyst and accountants will coordinate with these groups to ensure accurate and accountable billing by the service providers. A summary "FEMA Obligation and Funding Process" flowchart is shown on Page 139.

The work included in these projects is limited to repair, remediation, and mitigation of damage caused by Hurricane Ike, with some renovation of space where it is appropriate to improve the space rather than return it to the same condition it was in pre-Hurricane Ike. This work does not include new buildings such as the Jennie Sealy Hospital Replacement or University Boulevard Research Building.



These proposed repair and rehabilitation projects have been approved by U. T. System staff and meet the criteria for inclusion in the CIP. Design development plans and authorization of expenditure of funding will be approved by the Chancellor at a later date.

9. U. T. Medical Branch – Galveston: Center for Technology and Workforce Development - Amendment of the FY 2010-2015 Capital Improvement Program to include project; approval of total project cost; and appropriation of funds (Final Board approval)

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Callender that the U. T. System Board of Regents amend the FY 2010-2015 Capital Improvement Program (CIP) to include the Center for Technology and Workforce Development project at The University of Texas Medical Branch at Galveston as follows:

Project No.:	601-503	
Project Delivery Method:	Construction Manager at Risk	
Substantial Completion Date:	November 2011	
Total Project Cost:	Source	Proposed
	Grants	$10,000,000

a. approve a total project cost of $10,000,000 with funding from an Economic Development Administration (EDA) Grant; and

b. appropriate funds.

BACKGROUND INFORMATION

Prior to Hurricane Ike, which struck the U. T. Medical Branch campus in September 2008, the Center for Technology and Workforce Development was housed on the first and second floors of 1700 The Strand. The building was severely damaged and the Center was relocated to the third floor of the Medical Research Building.

U. T. Medical Branch – Galveston received a grant on May 28, 2009, from the Economic Development Administration (EDA) for $10,000,000 toward renovations of the building at 1700 The Strand. The renovations will allow the Center to relocate back to 1700 The Strand.

The proposed scope of work under the EDA grant will be used for the building envelope, the new elevator, interior and exterior improvements, and upgrades to the facility that include approximately 45,026 gross square feet and is envisioned as a state-of-the-art incubator/accelerator for new and emerging technologies that will provide modern training facilities for several programs.

The Center will accommodate emerging companies through affordable office and laboratory space, common space, printing services, and reception and meeting rooms. The appropriate mitigation strategies to protect the Center from future weather events will be completed as part of the Hurricane Ike Recovery projects for the Academic and Business Buildings, presented as Agenda Item 8, which will include repairing damage to the ground floor of the building, the existing elevator, and the roof.

This proposed repair and rehabilitation project has been approved by U. T. System staff and meets the criteria for inclusion in the CIP. Design development plans and authorization of expenditure of funding will be approved by the Chancellor at a later date.

10. U. T. Austin: College of Communication Building - New - Amendment of the FY 2010-2015 Capital Improvement Program to decrease the total project cost; approval to revise the funding sources; approval of design development; appropriation of funds and authorization of expenditure; approval of evaluation of alternative energy economic feasibility; and resolution regarding parity debt (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Powers that the U. T. System Board of Regents approve the recommendations for the College of Communication Building - New project at The University of Texas at Austin as follows:

Project No.:	102-041
Project Delivery Method:	Construction Manager at Risk

Substantial Completion Date: March 2012

Total Project Cost:

Source	Current	Proposed
Gifts	$54,000,000	$14,542,000
Unexpended Plant Funds		$ 6,024,000
Revenue Financing System Bond Proceeds		$30,094,000
		$50,660,000

Investment Metrics:

- The Jesse H. Jones Communication Center was completed in 1974 to serve 1,000 students. Today, the College of Communication includes more than 4,200 students, 125 faculty and 140 staff. Construction of the new facility will provide the resources necessary to meet the demands of past growth by 2012.
- The new facility will consolidate and reduce the burden of more than 40% of the communication classes that are taught in other buildings on campus by 2013.

a. amend the FY 2010-2015 Capital Improvement Program to decrease the total project cost from $54,000,000 to $50,660,000;

b. revise the funding sources from $54,000,000 from Gifts to $14,542,000 from Gifts, $6,024,000 from Unexpended Plant Funds, and $30,094,000 from Revenue Financing System Bond Proceeds;

c. approve design development plans;

d. appropriate funds and authorize expenditure of funds;

e. approve the evaluation of alternative energy economic feasibility; and

f. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- 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. System Board of Regents relating to the Financing System; and

- U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $30,094,000.

BACKGROUND INFORMATION

Debt Service

The $30,094,000 in aggregate Revenue Financing System debt will be repaid from institutional funds. Annual debt service on the $30,094,000 Revenue Financing System debt is expected to be $2,187,000. The institution's debt service coverage is expected to be at least 1.8 times and average 1.9 times over FY 2010-2015. Approximately $1,160,000 of the aggregate $30,094,000 Revenue Financing System debt proceeds is anticipated to be used for interest expense during construction.

Previous Board Actions

On November 11, 1999, the project was included in the CIP with a total project cost of $32,000,000 with funding from Gifts. With the adoption of the FY 2008-2013 CIP on August 23, 2007, the total project cost increased to $45,000,000 with funding from Gifts. On February 7, 2008, the total project cost was increased to $54,000,000 with funding from Gifts.

Project Description

The new College of Communication Building will create approximately 120,000 gross square feet (GSF) of state-of-the-art facilities that will enable teaching, learning, and research to cross traditional boundaries and create new forms of communication and collaboration that include multiuse classrooms, research labs, performance production and broadcast studios, public forum spaces, and offices. The project includes approximately 20,000 GSF of shelled space for future use by KUT Radio for multimedia production, studios, and office and community space with an emphasis on audio services, including specialized studio, performance, and digital networking facilities. The total project cost will be decreased to match available funding sources.

Basis of Design

The planned building life expectancy includes the following elements:

- Enclosure: 50-75 years
- Building Systems: 25-30 years
- Interior Construction: 15-20 years

The exterior appearance and finish are consistent with existing buildings. The mechanical and electrical building systems are designed with sufficient flexibility and space for future capacity to allow for changes without significant disruption to ongoing activities. The interior appearance and finish are consistent with existing campus buildings.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building or an addition to an existing building. Therefore, the Project Architect prepared a renewable energy evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

11. U. T. Health Science Center – Houston: Research Park Complex - Amendment of the FY 2010-2015 Capital Improvement Program to increase the total project cost; approval to increase scope of the Dental Branch Building portion of the project; reapproval of design development of the Dental Branch Building; appropriation of additional funds and authorization of expenditure; approval of evaluation of alternative energy economic feasibility; and resolution regarding parity debt (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Kaiser that the U. T. System Board of Regents approve the recommendations for the Dental Branch Building (DBB) portion of the Research Park Complex project at The University of Texas Health Science Center at Houston as follows:

Project No.:	701-320		
Project Delivery Method:	Construction Manager at Risk		
Substantial Completion:	June 2011		
Total Project Cost for the Research Park Complex:	Source	Current	Proposed
	Unexpended Plant Funds	$ 36,840,739	$ 40,380,739
	Permanent University Fund Bond Proceeds	$ 59,100,000	$ 59,100,000
	Tuition Revenue Bond Proceeds	$ 60,000,000	$ 60,000,000
	Gifts	$ 2,000,000	$ 2,000,000
	Revenue Financing System Bond Proceeds	$ 10,000,000	$ 70,800,000
		$167,940,739	$232,280,739
Total Project Cost for Stage 1 Behavioral and Biomedical Sciences Building (BBSB) of the Research Park Complex:	Source	Current	
	Unexpended Plant Funds	$36,180,739	
	Permanent University Fund Bond Proceeds	$41,100,000	
		$77,280,739	

Total Project Cost for Stage 2 (DBB) of the Research Park Complex:	Source	Current	Proposed
	Unexpended Plant Funds	$ 660,000	$ 4,200,000
	Permanent University Fund Bond Proceeds	$18,000,000	$ 18,000,000
	Tuition Revenue Bond Proceeds	$60,000,000	$ 60,000,000
	Gifts	$ 2,000,000	$ 2,000,000
	Revenue Financing System Bond Proceeds	$10,000,000	$ 70,800,000
		$90,660,000	$155,000,000

Investment Metrics:

- Increase enrollment by 19% to 100 students by the end of 2012
- Increase patient visits and treatments by 15% by the end of 2013
- Accommodate more students in a smaller overall facility through modern facility design

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost from $167,940,739 to $232,280,739;

b. revise the scope and increase total project cost of the DBB portion of the project from $90,660,000 to $155,000,000 with funding of $4,200,000 from Unexpended Plant Funds, $18,000,000 from Permanent University Fund (PUF) Bond Proceeds, $60,000,000 from Tuition Revenue Bond Proceeds, $2,000,000 from Gifts, and $70,800,000 from Revenue Financing System Bond Proceeds;

c. reapprove design development plans for the DBB portion of the project;

d. appropriate additional funds and authorize expenditure of funds of $3,540,000 from Unexpended Plant Funds and $60,800,000 from Revenue Financing System Bond Proceeds;

e. approve the evaluation of alternative energy economic feasibility; and

f. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- 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. System Board of Regents relating to the Financing System; and

- U. T. Health Science Center – Houston, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $60,800,000.

BACKGROUND INFORMATION

Debt Service

The additional $60,800,000 in Revenue Financing System debt will be repaid from institutional funds. Annual debt service on the $60,800,000 Revenue Financing System debt is expected to be approximately $5,300,000. The institution's debt service coverage is expected to be at least 1.8 times and average 2.0 times over FY 2010-2015. The Revenue Financing System debt service for this project is supported significantly by the Campus Projects Coordination Agreement between U. T. M. D. Anderson Cancer Center (UTMDACC) and U. T. Health Science Center – Houston (UTHSC-H), which calls for an upfront payment of $2,500,000 and annual installment payments from UTMDACC to UTHSC-H over 20 years in the amount of $2,725,000 per year, commencing in 2009 (see Item 3 on Page 119 in Health Affairs Committee.)

Previous Board Actions

Biomedical Research and Education Facility (BREF) - On August 10, 2006, the project was included in the CIP with a preliminary project cost of $62,000,000 with funding of $41,100,000 from PUF and $20,900,000 from Gifts.

Dental Branch Replacement Building (DBRB) - On August 10, 2006, the project was included in the CIP with a preliminary project cost of $80,000,000 with funding of $18,000,000 from PUF Bond Proceeds, $60,000,000 from Tuition Revenue Bond Proceeds, and $2,000,000 from Gifts.

Mental Sciences Institute Replacement Facility - On November 11, 1999, the project was included in the CIP with a preliminary project cost of $20,700,000 with funding from Unexpended Plant Funds. On August 9, 2001, the Board approved reducing the total project cost to $16,500,000 with funding from Unexpended Plant Funds. On August 8, 2002, the Board approved the increase in the total project cost to $22,500,000 with funding of $16,500,000 from Unexpended Plant Funds and $6,000,000 from Hospital Revenues.

Research Park Complex - On November 16, 2006, the three above mentioned projects were combined and redesignated as the Research Park Complex, and funding was revised with a total project cost of $161,500,000 with funding of $60,000,000 from

Tuition Revenue Bond Proceeds, $59,100,000 from PUF Bond Proceeds, $19,500,000 from Unexpended Plant Funds, and $22,900,000 from Gifts. With the adoption of the FY 2008-2013 CIP, the project scope was increased to include a parking garage and the funding was revised for a total project cost of $161,500,000 with funding of $60,000,000 from Tuition Revenue Bond Proceeds, $59,100,000 from PUF Bond Proceeds, $22,900,000 from Unexpended Plant Funds, $2,000,000 from Gifts, and $17,500,000 from Revenue Financing System Bond Proceeds and redesignated as the U. T. Research Park Complex. On August 23, 2007, the Board approved design development plans for the BREF portion of the project with a total project cost of $64,000,000 with funding of $41,100,000 from PUF Bond Proceeds and $22,900,000 from Unexpended Plant Funds. On February 7, 2008, the Board approved the increase in the total project cost for the BREF portion of the project from $64,000,000 to $77,280,739 with funding of $41,100,000 from PUF Bond Proceeds and $36,180,739 from Unexpended Plant Funds. On July 23, 2009, the Associate Vice Chancellor for Facilities Planning and Construction approved the redesignation of the project as the Research Park Complex with Stage I redesignated as Research Park Complex 1 – Behavioral and Biomedical Sciences Building (BBSB) and Stage 2 redesignated as Research Park Complex 2 – Dental Branch Building.

Project Description

Stage 2 of the project, the Dental Branch Building, will construct the second building in the complex consisting of a six-story structure to house approximately 298,521 gross square feet (GSF) and an expansion to the central plant. The building will include departmental offices, administrative offices, auditoriums, and educational components including classrooms and clinics with support space, preclinical and simulation laboratories. Originally, this facility was planned to be approximately 197,000 GSF and executed in phases. The increase in the total project cost will provide for the full development of the facility to provide the optimal teaching environment for the students instead of executing the construction in phases. The project budget also includes funding for the central plant which is approximately $13,000,000 of the project budget.

Basis of Design

The planned building life expectancy includes the following elements:

- Enclosure: 45-50 years
- Building Systems: 25-30 years
- Interior Construction: 20-30 years

The exterior appearance and finish are consistent with existing campus buildings and with the existing Campus Master Plan. The mechanical and electrical building systems are designed with sufficient flexibility and space for future capacity to allow for changes without significant disruption to ongoing activities. The interior appearance and finish are consistent with high-end commercial clinical and administrative space.

Texas Government Code Section 2166.403 requires the governing body of a State agency to verify in an open meeting the economic feasibility of incorporating alternative energy devices into a new State building or an addition to an existing building. Therefore, the Project Architect prepared a renewable energy evaluation for this project in accordance with the Energy Conservation Design Standards for New State Buildings. This evaluation determined that alternative energy devices such as solar, wind, biomass, or photovoltaic energy are not economically feasible for the project.

12. U. T. Arlington: Engineering Research Complex - Amendment of the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost; approval to reallocate approved funding; revise the funding sources; authorization of expenditure of additional funds; and remove the Center for Structural Engineering Research project from the CIP (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Spaniolo that the U. T. System Board of Regents approve the recommendations for the Engineering Research Complex project at The University of Texas at Arlington as follows:

Project No.:	301-258		
Project Delivery Method:	Construction Manager at Risk		
Substantial Completion Date:	January 2011		
Total Project Cost for Engineering Research Complex:	Source	Current	Proposed
	Unexpended Plant Funds	$ 12,780,000	$ 0
	Permanent University Fund Bond Proceeds	$ 37,000,000	$ 62,000,000
	Revenue Financing System Bond Proceeds	$ 25,500,000	$ 23,280,000
	Tuition Revenue Bond Proceeds	$ 70,430,000	$ 70,430,000
		$145,710,000	$155,710,000
Total Project Cost for Center for Structural Engineering Research:	Source	Current	Proposed
	Permanent University Fund Bond Proceeds	$ 25,000,000	
	Gifts	$ 9,000,000	
		$ 34,000,000	$ 0

Investment Metrics:

- Increase office and conference room space by 23% by 2011
- Create a new paradigm of highly flexible, interdisciplinary research space by 43% by 2011

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost from $145,710,000 to $155,710,000;

b. approve the reallocation of $25,000,000 of Permanent University Fund (PUF) Bond Proceeds from the Center for Structural Engineering Research project;

c. revise the funding sources from $12,780,000 from Unexpended Plant Funds, $37,000,000 from PUF, $25,500,000 from Revenue Financing System Bond Proceeds, and $70,430,000 from Tuition Revenue Bond Proceeds to $62,000,000 from PUF, $23,280,000 from Revenue Financing System Bond Proceeds, and $70,430,000 from Tuition Revenue Bond Proceeds;

d. authorize the expenditure of the additional $25,000,000 from PUF; and

e. remove the Center for Structural Engineering Research project from the CIP.

BACKGROUND INFORMATION

Previous Board Action

Engineering Lab Building Addition - On February 8, 2007, the project was included in the CIP with a total project cost of $10,450,000 with funding from Revenue Financing System Bond Proceeds.

Engineering Research Building - On June 20, 2006, the project was included in the CIP with a total project cost of $80,430,000 with funding of $70,430,000 from Tuition Revenue Bond Proceeds and $10,000,000 from Revenue Financing System Bond Proceeds. On August 10, 2006, the Board approved revising the funding to $70,430,000 from Tuition Revenue Bond Proceeds and $10,000,000 from PUF Bond Proceeds.

Expansion of Engineering Research Building - On August 10, 2006, the repair and rehabilitation project was included in the CIP with a total project cost of $30,000,000 with funding appropriated in the amount of $27,000,000 from PUF Bond Proceeds and $3,000,000 from Revenue Financing System Bond Proceeds.

Engineering Research Complex - With the adoption of the FY 2008-2013 CIP, the three above mentioned projects were combined and redesignated as the Engineering Research Complex with a total project cost of $125,430,000 with funding of $70,430,000 from Tuition Revenue Bond Proceeds, $37,000,000 from PUF Bond Proceeds, and $18,000,000 from Revenue Financing System Bond Proceeds. On May 15, 2008, the Board approved design development plans and increased the total project cost to $138,210,000 with funding of $70,430,000 from Tuition Revenue Bond Proceeds, $37,000,000 from PUF Bond Proceeds, $18,000,000 from Revenue Financing System Bond Proceeds, and $12,780,000 from Unexpended Plant Funds. On June 11, 2008, the Chancellor approved the increase to the total project cost to

$145,710,000 with funding of $70,430,000 from Tuition Revenue Bond Proceeds, $37,000,000 from PUF Bond Proceeds, $25,500,000 from Revenue Financing System Bond Proceeds, and $12,780,000 from Unexpended Plant Funds.

Center for Structural Engineering Research - On November 9, 2007, the project was included in the CIP with a total project cost of $34,000,000 with funding of $25,000,000 from PUF and $9,000,000 from Gifts.

Project Description

The project includes Phase I and II of the Engineering Research Complex. Phase I will expand the existing two-story Engineering Lab Building by 27,300 gross square feet (GSF) into a three-story facility. Portions of the first and second floors will be renovated to meet new programming needs. Mechanical and fire protection improvements are also included for the first and second floors. The expanded building will be approximately 76,150 GSF and will accommodate teaching and research laboratories, laboratory support spaces, and administrative spaces. Phase II includes construction of a new Engineering Research Building with 234,000 GSF.

Due to cost inflation and market conditions, U. T. Arlington initially decided to build the maximum size new facility that is economically feasible while finishing out only part of the building. At this time, the decision has been made to fully fund completion of the shell space using the PUF funding previously designated for the Center for Structural Engineering Research. The proposed increase to the total project cost to reallocate PUF funding from the Center for Structural Engineering Research project to the Engineering Research Complex will allow the complete finish out of the facility rather than having shell space. The building will provide state-of-the-art multidisciplinary teaching and research laboratories, laboratory support spaces, and faculty, student, and administrative offices. The Center for Structural Engineering Research project will be added back to the CIP at a future date when economic conditions improve and there is more private support for the project.

13. U. T. Austin: Peter T. Flawn Academic Center Renovation - Amendment of the FY 2010-2015 Capital Improvement Program to increase the total project cost; approval of additional funding sources; and appropriation of funds (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Powers that the U. T. System Board of Regents approve the recommendations for the Peter T. Flawn Academic Center Renovation project at The University of Texas at Austin as follows:

Project No.:	102-406
Project Delivery Method:	Construction Manager at Risk

Substantial Completion Date:	April 2011		
Total Project Cost:	Source	Current	Proposed
	Interest on Local Funds	$20,000,000	$20,000,000
	Designated Funds		$ 1,500,000
	Unexpended Plant Funds		$ 500,000
			$22,000,000

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost from $20,000,000 to $22,000,000;

b. revise the funding sources from $20,000,000 from Interest on Local Funds to $20,000,000 from Interest on Local Funds, $1,500,000 from Designated Funds, and $500,000 from Unexpended Plant Funds; and

c. appropriate additional funding of $1,500,000 from Designated Funds and $500,000 from Unexpended Plant Funds.

BACKGROUND INFORMATION

Previous Board Action

On August 14, 2008, the project was included in the CIP with a total project cost of $20,000,000 with funding from Interest on Local Funds.

Project Description

The project will improve the critical building systems and upgrade the life safety components as required to comply with current codes to provide a complete renovation/reconstruction of the third and fourth floors of the Peter T. Flawn Academic Center at U. T. Austin. The renovation work includes upgrades to the fire alarm system components, telecommunications and data systems, and repair/replacement of the mechanical, electrical, and plumbing systems to comply with the latest campus design standards, accessibility standards, and environmental regulations. The increase to the total project cost will upgrade the heating, ventilation, and air conditioning (HVAC) system serving the third and fourth floor renovated areas and complete the renovation of the unassigned space on the fourth floor.

14. U. T. San Antonio: Multifunction Office Building I - Amendment of the FY 2010-2015 Capital Improvement Program to increase the total project cost; approval to redesignate the project as the Multifunction Office Buildings 1 and 2; and authorization of Office of Facilities Planning and Construction management (Preliminary Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and President Romo that the U. T. System Board of Regents approve the recommendations for the Multifunction Office Building I project at The University of Texas at San Antonio as follows:

Institutionally Managed:	Yes ☐ No ☒		
Project Delivery Method:	Design/Build		
Substantial Completion Date:	August 2010		
Total Project Cost:	Source	Current	Proposed
	Designated Funds	$4,750,000	$15,250,000
Investment Metric:	• Add 20,000 net assignable square feet to make more educational and general space available in core campus buildings by 2010		

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost from $4,750,000 to $15,250,000;

b. redesignate the project as the Multifunction Office Buildings 1 and 2; and

c. authorize the Office of Facilities Planning and Construction to manage the project.

BACKGROUND INFORMATION

Previous Board Action

On February 12, 2009, the project was included in the CIP with a total project cost of $4,750,000 with funding from Designated Funds and approved for institutional management.

Project Description

The project originally was envisioned as a single building of approximately 37,500 gross square feet (GSF) with a total project cost of $4,750,000, and was institutionally managed. U. T. San Antonio has determined that additional office and administrative space is needed, and that the campus would be best served by providing two buildings with combined 75,328 GSF of space, separated by a courtyard, with a total project cost of $15,250,000. Moving administrative functions to the new buildings will free up classroom space in core academic buildings to support the increased student population. It has been determined that the U. T. System Office of Facilities Planning and Construction will manage all aspects of the work. Design development plans will be presented to the Board at a later date.

15. U. T. Southwestern Medical Center – Dallas: Library, Equipment, Repair and Rehabilitation (LERR09) - Renovation of Lab and Office Space V - Amendment of the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost; approval to reallocate approved funding; and authorization of expenditure of additional funds (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Podolsky that the U. T. System Board of Regents approve the recommendations for the LERR09 - Renovation of Lab and Office Space V project at The University of Texas Southwestern Medical Center at Dallas as follows:

Institutionally Managed:	Yes ☒ No ☐		
Project Delivery Method:	Design/Build		
Substantial Completion Date:	September 2009		
Project No.: 303-439	Source	Current	Proposed
LERR09-Renovation of Lab	Permanent University Fund Bond Proceeds	$ 500,000	
and Office Space I Total	Interest on Local Funds	$ 500,000	$ 500,000
Project Cost:		$1,000,000	$ 500,000
Project No.: 303-443	Source	Current	Proposed
LERR09-Renovation of Lab	Permanent University Fund Bond Proceeds	$ 233,337	$ 733,337
and Office Space V Total	Interest on Local Funds	$ 258,337	$ 593,121
Project Cost:		$ 491,674	$1,326,458

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to increase the total project cost from $491,674 to $1,326,458;

b. approve the reallocation of $500,000 from Permanent University Fund (PUF) Bond Proceeds from the LERR09 - Renovation of Lab and Office Space I project; and

c. authorize the expenditure of the additional $500,000 from PUF and $334,784 from Interest on Local Funds.

BACKGROUND INFORMATION

Previous Board Action

On August 23, 2008, the project was included in the CIP with a total project cost of $491,674 with funding of $233,337 from PUF and $258,337 from Interest on Local Funds.

Project Description

The request is for the proposed renovation of an outdated laboratory and office space for the Department of Pediatrics located in the Harry S. Moss Clinical Science Building. The proposed increase to the total project cost is due to an increase in the scope of the original plan from 2,900 gross square feet (GSF) to 4,727 GSF. The allocated funds in the amount of $500,000 for the LERR09 - Renovation of Lab and Office Space I project will not be spent because the project was completed with institutional funds in Fiscal Year 2008 due to a pressing need from the department. The LERR09 funds are available for transfer to the Renovation of Lab Office Space V project.

16. U. T. Southwestern Medical Center – Dallas: North Campus Phase 5 - Amendment of the FY 2010-2015 Capital Improvement Program to revise the funding sources; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Podolsky that the U. T. System Board of Regents approve the recommendations for the North Campus Phase 5 project at The University of Texas Southwestern Medical Center at Dallas as follows:

Project No.:	303-288		
Institutionally Managed:	Yes ☒ No ☐		
Project Delivery Method:	Construction Manager at Risk		
Substantial Completion Date:	November 2010		
Total Project Cost:	Source	Current	Proposed
	Tuition Revenue Bond Proceeds	$ 42,000,000	$ 42,000,000
	Permanent University Fund Bond Proceeds	$ 42,000,000	$ 42,000,000
	Gifts	$ 43,000,000	$ 0
	Revenue Financing System Bond Proceeds	$ 29,000,000	$ 72,000,000
		$156,000,000	$156,000,000

Investment metrics:

- Growth in research funding/assignable square feet of research space
- Increase in number of faculty
- Recruitment of new chairs in cell biology, pathology, and radiology, and new pediatric research institute director
- Increase in number and size of National Institutes of Health (NIH) grants

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to revise the funding source of $43,000,000 from Gifts to Revenue Financing System Bond Proceeds;

b. appropriate and authorize expenditure of additional funds in the amount of $43,000,000 from Revenue Financing System Bond Proceeds; and

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

- parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

- 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. System Board of Regents relating to the Financing System; and

- U. T. Southwestern Medical Center – Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $43,000,000.

BACKGROUND INFORMATION

Debt Service

The $43,000,000 in aggregate Revenue Financing System debt will be repaid from indirect cost recovery. Annual debt service on the $43,000,000 Revenue Financing System debt is expected to be $3,800,000. The institution's debt service coverage is expected to be at least 1.6 times and average 2.2 times over FY 2010-2015.

Previous Board Actions

On August 10, 2006, the project was included in the CIP with a total project cost of $156,000,000 with funding of $42,000,000 from Tuition Revenue Bond Proceeds, $42,000,000 from PUF Bond Proceeds, $29,000,000 from Revenue Financing System Bond Proceeds, and $43,000,000 from Gifts. On August 23, 2007, the Board approved the design development plans for the project.

Project Description

The North Campus Phase 5 building project will consist of a 12 story, 474,206 gross square foot tower building, including one floor of parking. The scale of the project has not changed. When the project was originally planned, four floors of office space and research laboratories were to be completed. However, as a result of the availability of project savings and a good bidding climate, six floors can be completed within the same project budget. Four floors of research laboratories will remain as shell space. The proposed request to revise the Gift funding to Revenue Financing System Bond Proceeds will allow the construction to move forward in a timely manner.

17. U. T. Medical Branch – Galveston: Blocker Burn Unit Renovation, Labor and Delivery Renovation, and John Sealy Hospital Modernization - Amendment of the FY 2010-2015 Capital Improvement Program to combine the three projects and redesignate as the John Sealy Hospital Modernization and approval to increase the total project cost; and revise the funding sources (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Callender that the U. T. System Board of Regents approve the recommendations for the Blocker Burn Unit Renovation, Labor and Delivery Renovation, and John Sealy Hospital Modernization projects at The University of Texas Medical Branch at Galveston as follows:

Project No.:	601-486	
Project Delivery Method:	Construction Manager at Risk	
Substantial Completion Date:	March 2014	
Total Project Cost for Blocker Burn Unit Renovation:	Source	Current
	Gifts	$ 6,000,000
Total Project Cost for Labor and Delivery Renovation:	Source	Current
	Gifts	$ 6,000,000
	Hospital Revenues	$ 2,000,000
		$ 8,000,000

Total Project Cost for John Sealy Hospital Modernization:	Source Gifts	Current $22,000,000

Total Project Cost for Combined Projects:	Source Gifts	Proposed $36,000,000

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to combine the three projects and redesignate as the John Sealy Hospital Modernization;

b. approve the increase in the total project cost from $22,000,000 to $36,000,000; and

c. revise the combined funding from $34,000,000 from Gifts and $2,000,000 from Hospital Revenues to $36,000,000 from Gifts.

BACKGROUND INFORMATION

Previous Board Actions

Blocker Burn Unit Renovation - On August 23, 2007, the project was included in the CIP with a total project cost of $6,000,000 with funding from Gifts and was institutionally managed.

Labor and Delivery Renovation - On August 23, 2007, the project was included in the CIP with a total project cost of $8,000,000 with funding of $6,000,000 from Gifts and $2,000,000 from Hospital Revenues and was institutionally managed.

John Sealy Hospital Modernization - On February 12, 2009, the project was included in the CIP with a total project cost of $22,000,000 with funding from Gifts.

Project Description

The three projects are all within one wing of the John Sealy Hospital. The request to combine three existing projects provides the opportunity to complete the project more efficiently and safely. The revitalization and modernization of the John Sealy Hospital project will provide for renovation of approximately 75,000 gross square feet (GSF) of the upper floors of the John Sealy Tower not affected by Hurricane Ike. The project will result in much improved patient rooms in the building. The Blocker Burn Unit will renovate approximately 16,500 GSF on the second floor of the hospital to provide acute burn treatment space, outpatient treatment, and hydrotherapy areas. The replacement of the Labor and Delivery suites will upgrade approximately 21,000 GSF of the hospital for state-of-the-art building systems to meet code requirements and provide for efficient and effective patient care and medical instruction. The project will provide treatment space, nursing stations, and healthcare supply rooms.

This combined project, with a total cost of $36,000,000, is the first phase of the John Sealy Hospital Modernization. It is anticipated that an additional $54,000,000 will be spent on future phases of the modernization. These costs are included in the proposed $266,000,000 to be used for modernization, repair, and mitigation of the John Sealy Hospital. The remaining $176,000,000 has been included in the Healthcare Buildings – Ike Recovery project for repair and mitigation (see Item 8 on Page 136.)

It has been determined that the U. T. System Office of Facilities Planning and Construction will manage the entire project. Design development plans and authorization of expenditure of funding will be approved by the Chancellor at a later date.

18. U. T. M. D. Anderson Cancer Center: Mid-Campus Building No. 1 (formerly Administrative Support Building) - Amendment of the FY 2010-2015 Capital Improvement Program to revise the funding sources; appropriation of additional funds and authorization of expenditure; and resolution regarding parity debt (Final Board approval)

RECOMMENDATION

The Chancellor concurs with the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Mendelsohn that the U. T. System Board of Regents approve the recommendations for the Mid-Campus Building No. 1 project at The University of Texas M. D. Anderson Cancer Center as follows:

Project No.:	703-404		
Project Delivery Method:	Design/Build		
Substantial Completion Date:	September 2012		
Institutionally Managed:	Yes ☒ No ☐		
Total Project Cost:	Source	Current	Proposed
	Revenue Financing System Bond Proceeds	$ 75,000,000	$150,000,000
	Hospital Revenues	$275,000,000	$200,000,000
		$350,000,000	$350,000,000

Investment Metrics:

- Begin vacating existing leases by 2012
- Provide shell and core space by 2012 to accommodate future build-out space for the relocation of other existing leases
- Provide shell and core space by 2012 to accommodate future build-out of space for the relocation of north campus personnel

a. amend the FY 2010-2015 Capital Improvement Program (CIP) to revise the funding of $75,000,000 from Revenue Financing System Bond Proceeds and $275,000,000 from Hospital Revenues to $150,000,000 from Revenue Financing System Bond Proceeds and $200,000,000 from Hospital Revenues;

b. appropriate and authorize expenditure of additional funds in the amount of $75,000,000 from Revenue Financing System Bond Proceeds; and

c. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that

   - parity debt shall be issued to pay the project's cost, including any costs prior to the issuance of such parity debt;

   - 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. System Board of Regents relating to the Financing System; and

   - U. T. M. D. Anderson Cancer Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of $75,000,000.

BACKGROUND INFORMATION

Debt Service

The $75,000,000 in aggregate Revenue Financing System debt will be repaid from Hospital Revenues. Annual debt service on the $75,000,000 Revenue Financing System debt is expected to be $6,600,000. The institution's debt service coverage is expected to be at least 4.7 times and average 4.9 times over FY 2010-2015.

Previous Board Actions

Administrative Support Building - Phase 1 - On August 11, 2005, the project was included in the CIP with a preliminary project cost of $194,695,000 with funding of $33,000,000 from Revenue Financing System Bond Proceeds and $161,695,000 with funding from Hospital Revenues.

Administrative Support Building - Phase 2 - On August 11, 2005, the project was included in the CIP with a preliminary project cost of $30,976,000 with funding of $8,976,000 from Revenue Financing System Bond Proceeds and $22,000,000 with funding from Hospital Revenues.

Administrative Support Building - Phase 3 - On August 22, 2007, the project was included in the CIP with a preliminary project cost of $20,031,000 with funding from Hospital Revenues.

Data Center Expansion - On August 22, 2007, the project was included in the CIP with a preliminary project cost of $20,000,000 with funding from Hospital Revenues.

Administrative Support Building - On May 15, 2008, the Board approved combining four projects and redesignation of the project as the Administrative Support Building. Design development plans and increasing the total project to $350,000,000 with funding of $275,000,000 from Hospital Revenues and $75,000,000 from Revenue Financing System Bond Proceeds were also approved. On June 15, 2009, the Executive Vice Chancellor for Health Affairs approved the redesignation of the project as the Mid-Campus Building No. 1.

Project Description

Pursuant to a Memorandum of Understanding effective August 26, 2004, U. T. M. D. Anderson Cancer Center has been delegated authority for institutional management of construction projects under the continued oversight of the Office of Facilities Planning and Construction. The institutionally managed projects are subject to review by the Board of Regents for design development.

The construction of the Mid-Campus Building No. 1 (formerly Administrative Support Building) is underway. U. T. M. D. Anderson Cancer Center is proposing to revise the funding sources by increasing the amount of Revenue Financing System debt and reducing the amount of Hospital Revenues being used to fund this project. The current economic environment provides for the issuance of low-cost debt allowing U. T. M. D. Anderson Cancer Center to conserve its current cash position.

The project will construct a shell and core of 1,353,000 gross square feet (GSF) and build out 374,000 GSF. U. T. M. D. Anderson Cancer Center currently leases space in eight different locations in the vicinity of the Texas Medical Center. The multiple locations present a variety of issues including increased operating costs because of the need to maintain an extensive and costly shuttle system and decreased employee productivity because of time spent in transit from facility to facility. Projections indicate the need for additional support space as growth in patient care and research continues. The estimated net present value savings is $10,200,000 to build rather than lease.

The growth rates have also resulted in the need for additional data processing infrastructure and hardware. The Mid-Campus Building No. 1 will include approximately 25,000 GSF for a new data center along with mechanical and electrical systems to support additional redundancy. The new data center will provide redundant capabilities for network systems and improve reliability for critical applications.

The Mid-Campus Building No. 1 provides the opportunity to vacate leases as they expire and consolidate several departments that are currently separated into many disparate locations. In addition, growth space will be provided to meet growth projections.

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FOR
STUDENT, FACULTY, AND STAFF CAMPUS LIFE COMMITTEE

Committee Meeting: 8/20/2009
Austin, Texas

James D. Dannenbaum, Chairman
Printice L. Gary
R. Steven Hicks
Robert L. Stillwell
Joel Helmke, Chair, Employee Advisory Council
Thomas Albrecht, Chair, Faculty Advisory Council
Bradley Carpenter, Chair, Student Advisory Council

U. T. System: Annual Meeting with Officers of the U. T. System Faculty Advisory Council

REPORT

The U. T. System Faculty Advisory Council will meet with the Board to discuss accomplishments of the Council and plans for the future following the agenda below. Council members scheduled to attend are:

Chair: Thomas B. Albrecht, Ph.D., U. T. Medical Branch – Galveston, Microbiology and Immunology

Former Chair: Mansour El-Kikhia, Ph.D., U. T. San Antonio, Political Science and Geography

Governance Committee Co-Chair: Murray Leaf, Ph.D., U. T. Dallas, Economic, Political and Policy Sciences

AGENDA

1. Introductions

2. Chairperson's report and overview

   Supplemental Materials:
   - **Dr. Albrecht's PowerPoint presentation on Pages 284 - 294 of Volume 2**
   - **Council Resolutions on Pages 295 - 296 of Volume 2.**

3. Standing Committee presentation

BACKGROUND INFORMATION

The University of Texas System Faculty Advisory Council was established in 1989 to provide a forum for communicating ideas and information between faculty, the Board of Regents, and the Executive Officers of U. T. System. Council guidelines require that recommendations have a multi-institutional focus and that the Council explore individual campus issues with institutional administrators prior to any consideration. The Faculty Advisory Council consists of two faculty representatives from each U. T. System institution and meets quarterly, usually in Austin. The Standing Committees of the Council are: Academic Affairs, Faculty Quality, Governance, and Health Affairs.