

MATERIAL SUPPORTING THE AGENDA

VOLUME XLIIIb

This volume contains the Material Supporting the Agenda furnished to each member of the Board of Regents prior to the meetings held on

January 5, 1996
February 8, 1996
March 1, 1996
March 26, 1996

The material is divided according to the standing committees and the meetings that were held and is color coded as follows:

White paper - for documentation of all items that were presented before the deadline date.

Blue paper - all items submitted to the Executive Session and distributed only to the Regents, Chancellor and Executive Vice Chancellors of the System.

Yellow paper - emergency items distributed at the meeting.

Material distributed at the meeting as additional documentation is not included in the bound volume, because sometimes there is an unusual amount and other times some people get copies and some do not get copies. If the Executive Secretary was furnished a copy, then that material goes into the appropriate subject file.

Special Meeting
Board of Regents
The University of Texas System
Ninth Floor, Ashbel Smith Hall, 201 W. 7th Street
Austin, Texas
January 5, 1996 -- 10:00 a.m.
(Via Telephone Conference Call)

AGENDA

A. CALL TO ORDER

B. ITEMS FOR CONSIDERATION

1. U. T. Board of Regents: Proposed Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1996, in an Amount Not to Exceed \$280,000,000, and Matters Related Thereto

See Page 1 and Exhibit 1.

2. U. T. Board of Regents: Proposed Adoption of Fourth Supplemental Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996 A & B, in an Aggregate Amount Not to Exceed \$350,000,000, and Matters Related Thereto

See Page 3 and Exhibit 2.

3. U. T. Health Science Center - Houston: Request for Authorization to Purchase Approximately 2.043 Acres of Land and Improvements Located at 7000 Fannin Street (Doctors Center), Houston, Harris County, Texas; Authorization to Submit the Purchase to the Coordinating Board; Authorization to Sell the Operations Center Building; Authorization to Execute Documents; and Approval for Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity

See Page 7.

C. OTHER BUSINESS

D. ADJOURNMENT

AGENDA FOR SPECIAL MEETING OF THE
BOARD OF REGENTS
OF THE UNIVERSITY OF TEXAS SYSTEM
January 5, 1996

1. U. T. Board of Regents: Proposed Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1996, in an Amount Not to Exceed \$280,000,000, and Approval of the Official Statement; Authorization for Sale of the Bonds to J.P. Morgan Securities, Inc., New York, New York, and Morgan Stanley & Co., Incorporated, New York, New York; Appointment of Vinson & Elkins, L.L.P., Austin, Texas, as Bond Counsel; Texas Commerce Bank, N.A., Austin, Texas, as Escrow Agent; Texas Treasury Safekeeping Trust Company, Austin, Texas, as Paying Agent; and KPMG Peat Marwick, L.L.P., Houston, Texas, as Escrow Verification Agent; and Authorization for Officers of U. T. System to Complete All Transactions.--

RECOMMENDATION

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

- a. Adopt the Resolution and approve the Official Statement substantially in the form set out in Exhibit 1 to authorize the issuance of Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1996, in an aggregate principal amount not to exceed \$280,000,000, with a final maturity not to exceed 2013 to be used to pay issuance cost and refund up to \$246,185,000 of The University of Texas System Permanent University Fund Bonds, Series 1988, 1991, and Refunding Bonds 1992B, with a net present value savings to the U. T. System of at least 4.5% of the refunded bonds
- b. Authorize the sale of the Permanent University Fund Refunding Bonds, Series 1996, to J.P. Morgan Securities, Inc., New York, New York, and Morgan Stanley & Co., Incorporated, New York, New York
- c. Appoint Vinson & Elkins, L.L.P., Austin, Texas, as Bond Counsel
- d. Appoint Texas Commerce Bank, N.A., Austin, Texas, as Escrow Agent
- e. Appoint the Texas Treasury Safekeeping Trust Company, Austin, Texas, as Paying Agent

- f. Appoint KPMG Peat Marwick, L.L.P., Houston, Texas, as Escrow Verification Agent
- g. Authorize appropriate officers and employees of the U. T. System as set forth in the related documents to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions as provided in the Resolution.

BACKGROUND INFORMATION

The Permanent University Fund ("PUF") Bonds, Series 1988, were issued in April 1988 in the aggregate amount of \$100,000,000 with a final maturity of 2001. The outstanding bonds, \$50,000,000, carry coupon rates of 6.00% - 7.00%. The bonds are callable July 1, 1998, at par. The PUF Bonds, Series 1991, were issued April 1991 in the aggregate amount of \$254,230,000 with a final maturity of 2011. The outstanding bonds, \$224,930,000, carry coupon rates of 5.90% - 9.50%. The bonds are callable July 1, 2001, at a price of 102%; July 1, 2002, at 101%; and July 1, 2003, at par. The PUF Refunding Bonds, Series 1992B, were issued in April 1992 in the aggregate amount of \$80,000,000 with a final maturity of 2013. The outstanding bonds, \$75,370,000, carry coupon rates of 5.10% - 6.25%. The bonds are callable July 1, 2002, at par. With interest rates at current levels, refunding bonds could be issued for selected maturities to create annual debt service savings of up to \$800,000 and to produce a net present value savings in excess of 4.5% of the refunded bonds. A minimum percentage of 4.5% is considered appropriate based on industry standards. Under present U. S. Treasury Tax Rules, bonds may be refunded once prior to their call date, normally ten years from issuance.

2. U. T. Board of Regents: Proposed Adoption of Fourth Supplemental Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996 A & B, in an Aggregate Amount Not to Exceed \$350,000,000, and Approval of the Official Statement; Authorization for Sale of the Bonds to Lehman Brothers, New York, New York; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel; Wickliff & Hall, P.C., Austin, Texas, as Special Counsel to the Board; Fulbright & Jaworski, L.L.P., Austin, Texas, as Disclosure Counsel; Texas Commerce Bank, N.A., Austin, Texas, as Escrow Agent; Texas Commerce Bank, N.A., Austin, Texas, as Paying Agent; and KPMG Peat Marwick, L.L.P., Houston, Texas, as Escrow Verification Agent; Authorization for Officers of U. T. System to Complete All Transactions; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

RECOMMENDATION

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

- a. Adopt the Fourth Supplemental Resolution and approve the Official Statement substantially in the form set out in Exhibit 2 to authorize the issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996 A & B, in an aggregate principal amount not to exceed \$350,000,000, with a final maturity not to exceed 2017 to be used to refund Revenue Financing System Commercial Paper, Series A, to provide new money to fund construction and acquisition cost of projects in the Capital Improvement Plan, to advance refund a maximum of \$62,065,000 of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991 A & B, and to pay issuance cost. The refunding portion of the bond issue may be sold if the net present value savings to the U. T. System of at least 3.5% of the refunded bonds are realized.
- b. Authorize the sale of the Revenue Financing System Bonds, Series 1996 A & B, to Lehman Brothers, New York, New York, and other underwriters to be named by an Authorized Representative
- c. Appoint McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel; Wickliff & Hall, P.C., Austin, Texas, as Special Counsel to the Board; and Fulbright & Jaworski, L.L.P., Austin, Texas, as Disclosure Counsel

- d. Appoint Texas Commerce Bank, N.A., Austin, Texas, as Escrow Agent
- e. Appoint Texas Commerce Bank, N.A., Austin, Texas, as Paying Agent
- f. Appoint KPMG Peat Marwick, L.L.P., Houston, Texas, as Escrow Verification Agent
- g. Authorize appropriate officers and employees of the U. T. System as set forth in the related documents to take any and all actions necessary to carry out the intentions of the U. T. Board of Regents to complete the transactions as provided in the Resolution.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 6, the U. T. Board of Regents resolves that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. The "members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

At the May 1995 meeting, the U. T. Board of Regents adopted the Third Supplemental Resolution authorizing the issuance of the Series 1995A Revenue Financing System Bonds and additional bonds to be issued later in the fiscal year. The authorization to issue the additional bonds under the Third Supplemental Resolution is repealed by the Fourth Supplemental Resolution. The Fourth Supplemental Resolution allows the U. T. System to combine several financings and to provide tax-exempt financing for building acquisitions that contain limited private use.

Proceeds from the Revenue Financing System Bonds, Series 1996A, will be used to fund construction cost of \$74,283,000 for projects authorized by Section 55.1714 of the Texas Education Code. These projects are part of the South Texas/Border Initiative.

A portion of the proceeds, \$106,855,000, of the Revenue Financing System Bonds, Series 1996B, will be used to refund Revenue Financing System Commercial Paper, Series A Notes. The Notes are used to provide interim financing during the construction of auxiliary projects. This method of financing allows the component institutions to pay short-term rates and does not require any amortization of the debt during the construction phase. Once the project construction is completed, the commercial paper debt is converted to fixed rate debt and amortization begins. In addition, proceeds in the amount of \$88,000,000 will be used to acquire the Doctors Center for the U. T. Health Science Center - Houston for a maximum of \$48,000,000 (see Item 3), \$32,500,000 will be used to fund construction of the Bertner Complex at the U. T. M.D. Anderson Cancer Center, and to acquire buildings and land at the U. T. Southwestern Medical Center - Dallas for a maximum of \$7,500,000.

The remaining proceeds would be used to pay issuance cost, provide for an original issue discount and to advance refund the Revenue Financing System Bonds, Series 1991 A & B, maturing in the years 2002 - 2013 in the aggregate amount of \$62,065,000. These bonds were issued in March 1991 in the aggregate amounts of \$187,535,000 for the Series 1991A Bonds and \$91,045,000 for the Series 1991B Bonds. The outstanding bonds carry coupon rates of 6.00% - 6.75%. The bonds are callable August 15, 2001, at a price of 102% of par. With interest rates at current levels, refunding bonds could be issued for such maturities to create annual debt service savings of up to \$260,000 per year. In addition, current rates would produce a net present value savings in excess of 4.5% of the refunded bonds, which normally is our minimum goal, however a ratio of 3.5% is requested as a minimum based on the need to provide flexibility in the financing plan. In the aggregate, the bond sale will enhance the ability of the U. T. System to finance all the projects, including the Doctors Center which has some private use. Under present U. S. Treasury Tax Rules, bonds may only be advance refunded once prior to their call date, normally ten years.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991 and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to finance the cost of construction of eligible projects, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, and the Third Supplemental Resolution and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, and the Third Supplemental Resolution as amended.

EXECUTED this 5th day of January, 1996


Assistant Vice Chancellor for Finance

3. U. T. Health Science Center - Houston: Request for Authorization to Purchase Approximately 2.043 Acres of Land and Improvements Located at 7000 Fannin Street (Doctors Center), Houston, Harris County, Texas; Authorization to Submit the Purchase to the Coordinating Board; Authorization to Sell the Operations Center Building; Authorization to Execute Documents; and Approval for Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Low that the U. T. Board of Regents:

- a. Authorize the U. T. Health Science Center - Houston to purchase all of Reserve "A" of Doctors Center, Section One (1), approximately 2.043 acres of land and improvements located at 7000 Fannin Street, in Houston, Harris County, Texas, for \$48,000,000 plus related closing costs
- b. Authorize the U. T. Health Science Center - Houston to submit the transaction to the Texas Higher Education Coordinating Board for approval
- c. Authorize the U. T. Health Science Center - Houston to sell the Operations Center Building and associated land of approximately 16.78 acres at fair market value as supported by an independent MAI appraisal
- d. Authorize the Executive Vice Chancellor for Business Affairs, or his designee, to execute all documents pertaining to the transactions following approval by the Office of General Counsel.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and President Low that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 10, the U. T. Board of Regents resolves that:

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

- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. 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. Board of Regents of tax-exempt Parity Debt in the amount of \$48,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The U. T. Board of Regents was informed in August 1995 and November 1995 that negotiations were in progress to purchase the Doctors Center located in the Texas Medical Center at the corner of Fannin Street and Galen Street in Houston, Texas. The property contains approximately 2.043 acres of land, a 26-story office building with approximately 342,000 gross square feet of space, and a five-story parking garage of approximately 385,000 square feet with space for 1,000 cars. The U. T. Health Science Center - Houston is currently leasing approximately 183,700 rentable square feet in the building at an annual lease cost of \$4,800,000 per year. With the eventual sale of the Operations Center Building and associated acreage, the U. T. Health Science Center - Houston desires to consolidate as much as possible the academic and administrative functions into the Doctors Center, an objective which may require three to five years to complete. Proceeds from the sale of the Operations Center Building will be applied toward a reduction in the debt financing of the Doctors Center.

This acquisition is included in the FY 1996-2001 Capital Improvement Plan and the FY 1996 Capital Budget with funding in the amount of up to \$50,000,000 from Revenue Financing System Bond Proceeds. However, due to the lower negotiated contract price, financing with bond proceeds will total \$48,000,000.

The debt is to be repaid from current fund revenues presently used for payment of annual lease payments totaling \$4,800,000 by the U. T. Health Science Center - Houston and lease receipts from other tenants in the building. The forecast assumes a \$26 per square foot rate for the U. T. Health Science Center - Houston to be allocated to the various departments occupying space in the building with annual inflation adjustments of 3% through 2000. Additionally, other

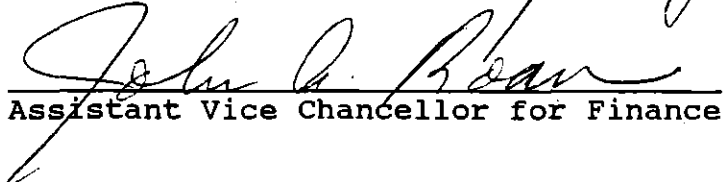
lease space income is forecasted at existing lease terms with future annual inflation adjustments upon renewal of 3% through 2000. Operating expenses for the facility are based on historical levels and adjusted annually for inflationary growth. The acquisition will be financed with long-term bonds with an expected 6% interest rate, resulting in forecasted annual debt service requirements of \$4,184,859.

Net receipts after operating expenses are forecasted to range from \$5 - \$6 million annually, resulting in debt service coverage ratios between 1.20 times to 1.45 times coverage. The analysis reflects a slight decline in lease receipts and debt service coverage during FY 2000, due to expiring lease terms of other tenants whose space will be vacated, but overall the forecast reflects sufficient debt service coverage levels (see Page 11). Plans will be developed to occupy any available space with staff presently in the Operations Center Building or other leased facilities in the Texas Medical Center.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991 and amended on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section 5 (a) (ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" pursuant to the Master Resolution to finance the cost of construction of eligible projects, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master Resolution, First Supplemental Resolution Establishing an Interim Financing Program, the Second Supplemental Resolution, and the Third Supplemental Resolution and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution, Second Supplemental Resolution, and the Third Supplemental Resolution as amended.

EXECUTED this 5th day of January, 1996


Assistant Vice Chancellor for Finance

**The University of Texas Health Science Center at Houston
Acquisition of the Doctor's Center Building**

Project Level (\$ actual)

	Forecast				
	FY 96	FY 97	FY 98	FY 99	FY 00
Lease Revenues	7,719,723	7,926,927	8,513,789	9,033,016	8,723,414
Operating Expenses	<u>(2,704,994)</u>	<u>(2,770,644)</u>	<u>(2,948,830)</u>	<u>(2,947,226)</u>	<u>(3,002,412)</u>
Net Receipts After Operations	5,014,729	5,156,283	5,564,959	6,085,790	5,721,002
Debt Service (\$48MM, 6%, 20-years)	4,184,859	4,184,859	4,184,859	4,184,859	4,184,859
Excess Receipts After Operations and Debt Service	829,870	971,424	1,380,100	1,900,931	1,536,143
Debt Service Coverage	1.20	1.23	1.33	1.45	1.37

Campus Level: UT HSC at Houston (\$ in millions)

	Actual			Forecast				
	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
Beg. Fund Balances	37.8	41.7	58.5	73.8	74.0	80.9	91.5	110.1
Total Current Revenues	289.9	315.1	320.3	337.2	335.6	334.1	332.5	331.3
Total Current Expenditures	<u>(280.2)</u>	<u>(295.1)</u>	<u>(301.2)</u>	<u>(328.4)</u>	<u>(320.5)</u>	<u>(314.8)</u>	<u>(306.3)</u>	<u>(301.6)</u>
Net Revenues	9.7	20.0	19.1	8.8	15.1	19.3	26.2	29.7
Debt Service	(2.4)	(2.4)	(2.5)	(8.3)	(7.9)	(8.4)	(7.3)	(7.2)
Other Man. Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Mand. Transfers	(2.4)	(2.4)	(2.5)	(8.3)	(7.9)	(8.4)	(7.3)	(7.2)
Non-Mand. Transfers	(2.0)	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Adjustments	<u>(1.4)</u>	<u>(0.8)</u>	<u>(1.9)</u>	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.3)</u>
Net Inc./ (Dec.) for Year	3.9	16.8	15.3	0.2	6.9	10.6	18.6	22.2
End. Fund Balances	41.7	58.5	73.8	74.0	80.9	91.5	110.1	132.3
Debt Service Coverage	4.04	8.33	7.64	1.06	1.91	2.30	3.59	4.13

U.T. System (\$ in millions)

	Actual			Forecast				
	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
Available Revenues	2,965.2	3,226.4	3,439.7	3,553.0	3,584.3	3,655.5	3,702.8	3,783.7
Operating Expenses	<u>(2,868.1)</u>	<u>(3,033.6)</u>	<u>(3,239.9)</u>	<u>(3,419.5)</u>	<u>(3,437.2)</u>	<u>(3,482.4)</u>	<u>(3,533.1)</u>	<u>(3,594.2)</u>
Net Available for Debt Service	97.1	192.8	199.8	133.5	147.1	173.1	169.7	189.5
Debt Service	(42.0)	(43.3)	(48.9)	(76.0)	(91.0)	(101.0)	(106.9)	(113.1)
Debt Service Coverage	2.31	4.45	4.09	1.76	1.62	1.71	1.59	1.68

EXHIBIT 1
(Reference Item 1)

Special Meeting
Board of Regents
The University of Texas System
Ninth Floor, Ashbel Smith Hall, 201 W. 7th Street
Austin, Texas
January 5, 1996 -- 10:00 a.m.
(Via Telephone Conference Call)

DRAFT: 12/27/95

RESOLUTION

by the

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

authorizing the issuance of

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND REFUNDING BONDS
SERIES 1996

January 5, 1996

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EXHIBIT A - CONTINUING DISCLOSURE — DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND
DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY
OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND
REFUNDING BONDS, SERIES 1996, AND APPROVING
AND AUTHORIZING INSTRUMENTS AND PROCEDURES
RELATING THERETO

WHEREAS, article VII, section 18 of the Texas Constitution, as amended, authorizes the Board (hereinafter defined) to issue bonds and notes not to exceed a total amount of 20% of the cost value of investments and other assets of the Permanent University Fund (hereinafter defined), exclusive of real estate, at the time of issuance thereof and to pledge all or any part of its two-thirds interest in the Available University Fund (hereinafter defined) to secure the payment of the principal of and interest on those bonds and notes, for the purpose of acquiring land, constructing and equipping buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, acquiring capital equipment and library books and library materials, and refunding bonds or notes issued under such section or prior law, at or for the System (hereinafter defined) administration and component institutions of the System; and

WHEREAS, the Board heretofore has authorized, issued, and delivered, pursuant to such constitutional provision, its Series 1988 Bonds (hereinafter defined), which are now outstanding in the aggregate principal amount of \$50,000,000, its Series 1991 Bonds (hereinafter defined), which are now outstanding in the aggregate principal amount of \$224,930,000, its Series 1992A Bonds (hereinafter defined), which are now outstanding in the aggregate principal amount of \$196,015,000, and its Series 1992B Bonds (hereinafter defined), which are now outstanding in the aggregate principal amount of \$75,370,000, and which, along with certain other outstanding obligations of the Board, are secured by a pledge of the Interest of the System (hereinafter defined) in the Available University Fund (hereinafter defined); and

WHEREAS, the Board has determined to authorize issuance of its refunding bonds in the maximum aggregate principal amount of \$280,000,000 for the purpose of refunding the Refunded Bonds (hereinafter defined), consisting of a portion of the outstanding Series 1988 Bonds, Series 1991 Bonds and Series 1992B Bonds, pursuant to article VII, section 18 of the Texas Constitution, section 65.46, Texas Education Code, and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, and other applicable laws; and

WHEREAS, the refunding bonds hereinafter authorized shall not be issued unless they will produce at least a minimum amount of net present value savings expressed as a percentage of the principal amount of the Refunded Bonds;

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

ARTICLE I

DEFINITIONS, INTERPRETATION AND FINDINGS

Section 1.01. **DEFINITIONS.** Unless expressly provided otherwise herein or unless the context shall indicate a contrary meaning or intent, the terms and expressions defined below, when used in this Resolution, shall have the meanings set forth below for all purposes of this Resolution, except the FORM OF BOND appearing in Section 2.06 hereof.

"Additional Parity Bonds and Notes" means the additional parity bonds and the additional parity notes permitted to be issued pursuant to Section 3.04 hereof or pursuant to Section 3.04 of the Series 1988 Resolution, Section 3.04 of the Series 1991 Resolution, Section 3.04 of the Series 1992A Resolution or Section 3.04 of the Series 1992B Resolution.

"Attorney General" means the Attorney General of the State of Texas.

"Authorized Denomination" means \$5,000 principal amount or any integral multiple thereof.

"Authorized Representative" means one or more of the following officers or employees of the System, to wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, and the Director of Finance, or in the event of a vacancy in any such position, the person duly authorized to act in such capacity pending the appointment of a successor to such position, or such other officer or employee of the System authorized by the Board to act as an *"Authorized Representative."*

"Available University Fund" means, as provided in article VII, section 18 of the Texas Constitution, as amended, all of the dividends, interest, and other income from the Permanent University Fund (less administrative expenses), including the net income attributable to the surface of Permanent University Fund land.

"Board" means the Board of Regents of the System.

"Bond" or *"Bonds"* means any one or more, as the case may be, of the bonds authorized by this Resolution, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to this Resolution.

"Bond Purchase Contract" means the agreement with the Underwriters providing for the sale of the Bonds authorized by Section 7.04 hereof.

"*Bond Year*" means the period beginning on July 2 of any calendar year and continuing through July 1 of the following calendar year.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Comptroller*" means the Comptroller of Public Accounts of the State of Texas.

"*Counsel's Opinion*" means a written legal opinion of nationally recognized bond counsel acceptable to the Board.

"*CUSIP*" means the Committee on Uniform Securities Identification Procedures of the American Bankers Association, or any successor to its functions.

"*Defeased Bond*" means any Bond the principal of and interest on which is deemed to be paid, retired and no longer outstanding within the meaning of this Resolution, pursuant to and in accordance with Section 7.02 hereof.

"*DTC*" means The Depository Trust Company, New York, New York, and its successors and assigns.

"*DTC Participant*" means the securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

"*Escrow Agreement*" means the agreement with Texas Commerce Bank National Association, as escrow agent, providing for the discharge and defeasance of the Refunded Bonds, authorized by Section 7.05 hereof, as such agreement may be amended from time to time in accordance with the terms thereof.

"*Fiscal Year*" means the fiscal year of the State of Texas, which currently ends on August 31 of each calendar year.

"*Government Obligations*" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, and which may be in book-entry form.

"*Initial Bonds*" means the Bonds authorized, issued, sold and initially delivered hereunder and upon which the registration certificate, manually executed by or on behalf of the Comptroller, has been placed.

"Interest and Sinking Fund" means the Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund described in Section 3.02 hereof.

"Interest of the System," when used with reference to the Available University Fund, means the System's two-thirds interest in the Available University Fund as apportioned and provided in article VII, section 18 of the Texas Constitution, as amended.

"Paying Agent" means the paying agent for the Bonds appointed by the Board in Section 2.14 hereof, or any successor to such paying agent appointed hereunder.

"Permanent University Fund" means the Permanent University Fund as created, established, implemented and administered pursuant to sections 10, 11, 11a, 15 and 18 of article VII of the Texas Constitution, as amended, and by other applicable present and future constitutional and statutory provisions.

"Principal and Interest Requirements" means, with respect to any Fiscal Year, the amounts of principal of and interest on all PUF Bonds scheduled to be paid in such Fiscal Year from the Interest of the System in the Available University Fund. If the rate of interest to be borne by any PUF Bonds is not fixed, but is variable or adjustable by any formula, agreement, or otherwise, and therefore cannot be calculated as actually being scheduled to be paid in a particular amount for any particular period, then for the purposes of the previous sentence such PUF Bonds shall be deemed to bear interest at all times to their maturity or due date at the lesser of (i) the maximum rate then permitted by law or (ii) the maximum rate specified in such PUF Bonds.

"PUF Bonds" means the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and all Additional Parity Bonds and Notes.

"Record Date" means, with respect to any scheduled interest payment date or scheduled principal payment date on the Bonds, the 15th day of the month next preceding such payment date.

"Refunded Bonds" means the particular Series 1988 Bonds, Series 1991 Bonds and Series 1992B Bonds that the Authorized Representative, acting for and on behalf of the Board pursuant to Sections 7.04 and 7.05 hereof, determines shall be refunded by the Bonds consistent with the net present value savings requirement of Section 7.04 hereof. The Refunded Bonds shall be specified in the Bond Purchase Contract.

"Registrar" means the registrar and transfer agent for the Bonds appointed by the Board in Section 2.14 hereof, or any successor to such registrar and transfer agent appointed by the Board hereunder.

"Registration Books" means the books or records of the registration and transfer of the Bonds required to be kept by or on behalf of the Board pursuant to Section 2.09 hereof.

"Report" means the verification report prepared by KPMG Peat Marwick LLP, Houston, Texas, Certified Public Accountants, relating to the refunding of the Refunded Bonds, a copy of which may be attached to the Escrow Agreement, and any subsequent verification report required by the Escrow Agreement.

"Resolution" means this resolution authorizing the Bonds.

"Rule 15c2-12" means Rule 15c2-12 of the Securities and Exchange Commission, as amended from time to time.

"Series 1988 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1988, issued under the Series 1988 Resolution in the original aggregate principal amount of \$100,000,000.

"Series 1988 Resolution" means the resolution adopted by the Board on April 14, 1988, authorizing the issuance of the Series 1988 Bonds, as such resolution may be amended from time to time.

"Series 1991 Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1991, issued under the Series 1991 Resolution in the original aggregate principal amount of \$254,230,000.

"Series 1991 Resolution" means the resolution adopted by the Board on February 14, 1991, authorizing the issuance of the Series 1991 Bonds, as such resolution may be amended from time to time.

"Series 1992A Bonds" means the Board's Permanent University Fund Refunding Bonds, Series 1992A, issued under the Series 1992A Resolution in the original aggregate principal amount of \$196,015,000.

"Series 1992A Resolution" means the resolution adopted by the Board on February 13, 1992, authorizing the issuance of the Series 1992A Resolution, as such resolution may be amended from time to time.

"Series 1992B Bonds" means the Board's Permanent University Fund Bonds, Series 1992B, issued under the Series 1992B Resolution in the original aggregate principal amount of \$80,000,000.

"Series 1992B Resolution" means the resolution adopted by the Board on February 13, 1992, authorizing the issuance of the Series 1992B Bonds, as such resolution may be amended from time to time.

"System" means The University of Texas System, including each of the following existing and operating institutions, respectively:

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; and
The University of Texas Health Center at Tyler,

together with every other institution or branch thereof now or hereafter operated by or under the jurisdiction of the Board pursuant to law.

"Trust Company" means the Texas Treasury Safekeeping Trust Company, incorporated pursuant to Subchapter G of Chapter 404, Government Code, Texas Codes Annotated, as amended.

"Underwriters" means the investment banking firm or firms that contract to purchase the Bonds, pursuant to the Bond Purchase Contract in accordance with Section 7.04 of this Resolution.

Section 1.02. RECITALS, TABLE OF CONTENTS, TITLES AND HEADINGS. The terms and phrases used in the recitals of this Resolution have been included for convenience of reference only and the meaning, construction and interpretation of such terms and phrases for purposes of this Resolution shall be determined solely by reference to Section 1.01 of this Resolution. The table of contents, titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be

considered or given any effect in construing this Resolution or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.03. INTERPRETATION. Unless the context requires otherwise, words of the singular number used in this Resolution shall be construed to include correlative words of the plural number and vice versa, and words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa. References in this Resolution to numbered Articles, Sections or portions thereof shall refer to the respective Articles and Sections of this Resolution, unless expressly specified otherwise. The terms "hereof," "herein," "hereunder" and similar terms shall refer to this Resolution as a whole and not to any particular provision of this Resolution. This Resolution and all the terms and provisions hereof shall be liberally construed to effectuate the provisions set forth herein and to sustain the validity of this Resolution.

ARTICLE II

AUTHORIZATION AND TERMS OF THE BONDS

Section 2.01. AUTHORIZATION AND AUTHORIZED AMOUNT. Pursuant to authority conferred by and in accordance with the provisions of the Constitution and laws of the State of Texas, particularly article VII, section 18 of the Texas Constitution, section 65.46, Texas Education Code, and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, the Bonds are hereby authorized to be issued, in the maximum aggregate principal amount of TWO HUNDRED EIGHTY MILLION DOLLARS (\$280,000,000) for the purpose of obtaining funds to refund the Refunded Bonds, all in accordance with and subject to the terms, conditions and limitations contained herein. The Bonds are Additional Parity Bonds permitted to be issued under Section 3.04 of the Series 1988 Resolution, Section 3.04 of the Series 1991 Resolution, Section 3.04 of the Series 1992A Resolution and Section 3.04 of the Series 1992B Resolution on a parity and in all respects of equal dignity with the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds.

Section 2.02. DESIGNATION, FORM, NUMBERS, DATE AND DENOMINATION OF THE BONDS. Each Bond shall be designated: "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM PERMANENT UNIVERSITY FUND REFUNDING BOND, SERIES 1996". The Bonds shall be issuable only in fully registered form without coupons. The Bonds shall be lettered and numbered separately from 1 upward prefixed by the letter R. Each Bond shall be in an Authorized Denomination and shall be dated as of the first calendar day of the month in which such Bond is sold pursuant to Section 7.04 of this Resolution.

Section 2.03. INTEREST PAYMENT DATES AND INTEREST RATES. Interest on the Bonds shall be payable on the first January 1 or July 1 that is 60 days following the date of the

Bonds and continuing on each January 1 and July 1 thereafter until maturity or prior redemption. The Bonds shall bear interest at the fixed rate or rates of interest per annum, calculated on the basis of a 360-day year composed of twelve 30-day months, as set forth in the Bond Purchase Contract; provided that (i) the interest rate or rates for the Bonds must be in a multiple of 1/8 of 1% or 1/20 of 1%, with all of the Bonds of the same maturity bearing the same interest rate, (ii) the maximum interest rate per annum borne by any Bond must not exceed 15%, and (iii) the highest interest rate on any Bond must not exceed the lowest interest rate on the Bonds by more than 4.0%.

Each Initial Bond and each Bond authenticated prior to the first Record Date on the Bonds shall bear interest from the date thereof. Each Bond authenticated on or after the first Record Date on the Bonds shall bear interest from the interest payment date immediately preceding the date of authentication, unless such Bond is authenticated after any Record Date but on or before the next following interest payment date, in which case such Bond shall bear interest from such next following interest payment date; provided, however, that if at the time of delivery of any exchange or replacement Bond the interest on the Bond it replaces or for which it is being exchanged is due but has not been paid, then such Bond shall bear interest from the date to which such interest has been paid in full.

Section 2.04. REDEMPTION PRIOR TO MATURITY. (a) The Bonds shall be subject to redemption prior to stated maturity in the manner, on the redemption dates and at the redemption prices provided in the Bond Purchase Contract and further described in the FORM OF BOND appearing in this Resolution.

(b) (i) Notice of any redemption shall be given to the registered owners of the Bonds to be redeemed, all as set forth in the FORM OF BOND appearing in this Resolution.

(ii) In addition to the notice of redemption set forth in the FORM OF BOND, the Registrar shall give notice of redemption of Bonds by mail, first-class postage prepaid, at least 30 days prior to a redemption date to each registered securities depository and to any national information service that disseminates redemption notices. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Registrar shall send a second notice of redemption to the persons specified in the immediately preceding sentence at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to the registered securities depositories or such national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent the Bonds in for redemption 60 days after the redemption date. Notwithstanding the foregoing, failure to send, mail or receive any notice otherwise required by this Subsection 2.04(b)(ii), or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the

redemption of any Bond, and it is hereby specifically provided that the publication of notice as required by the FORM OF BOND shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof.

(iii) Each notice of redemption, whether required in the FORM OF BOND or in this Section, shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the date of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts called of each certificate, the publication and mailing dates for the notices, the date of redemption, the redemption price, the names of the Paying Agent and Registrar and the address at which the Bonds may be redeemed, including a contact person and telephone number.

(iv) All redemption payments made by the Paying Agent to the registered owners of the Bonds shall include a CUSIP number relating to each amount paid to such registered owner.

Section 2.05. MEDIUM AND PLACE OF PAYMENT. The principal and redemption price of the Bonds shall be payable, without exchange or collection charges, in lawful money of the United States of America, to the respective registered owners thereof upon presentation and surrender thereof at maturity or upon the date fixed for redemption prior to maturity at the designated office for payment of the Paying Agent. Interest on the Bonds shall be payable by the Paying Agent on each interest payment date, by check dated as of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears on the Record Date preceding each such interest payment date. In addition, interest may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owners of the Bonds. Any accrued interest due upon the redemption of any Bond prior to maturity as provided in this Resolution shall be payable to the registered owner thereof at the designated office for payment of the Paying Agent upon presentation and surrender thereof for redemption and payment at such principal office for payment. Notwithstanding the foregoing, any payment to Cede & Co., as nominee of DTC, or its registered assigns, shall be made in accordance with existing arrangements among the Board and DTC.

Section 2.06. FORM OF BOND. (a) The form of all Bonds issued under this Resolution shall be substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Resolution.

FORM OF BOND

NO. _____

PRINCIPAL AMOUNT
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND REFUNDING BOND
SERIES 1996

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATED DATE</u>	<u>CUSIP NO.</u>
_____ %	_____	_____, 1996	_____

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Board"), being the governing body of The University of Texas System, an agency of the State of Texas, hereby promises to pay to _____ or the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount of _____ and to pay interest thereon, calculated on the basis of a 360-day year composed of twelve 30-day months, from the dated date specified above to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on the first January 1 or July 1 that is at least sixty days following the dated date specified above, and semiannually on each January 1 and July 1 thereafter, except that if the date of authentication of this Bond is later than July 1, 1996, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the designated office for payment of the Texas Treasury Safekeeping Trust Company in Austin, Texas, which initially is the "Paying Agent" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent to the registered owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent on, and payable solely from, funds of the Board required by the resolution authorizing the issuance of the Bonds (the "Bond Resolution") to be on deposit with the Paying Agent for such purpose as hereinafter provided; and such check shall be sent by the Paying

Agent by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 15th day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Board which initially is the Registrar for the Bonds, as hereinafter described. In addition, interest may be paid by such other method acceptable to the Paying Agent, requested by, and at the risk and expense of, the registered owner hereof. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner at the designated office for payment of the Paying Agent upon presentation and surrender of this Bond for redemption and payment at the designated office for payment of the Paying Agent. The Board covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and redemption date for this Bond it will make available to the Paying Agent, from the "Interest and Sinking Fund" maintained under the Bond Resolution, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Board and the securities depository.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which such banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

[THE FOLLOWING FOUR PARAGRAPHS SHALL BE COMPLETED, REVISED OR DELETED TO THE EXTENT NECESSARY TO CONFORM TO THE PROVISIONS OF THE BOND PURCHASE CONTRACT.]

THIS BOND is one of an issue of Bonds issued in the original aggregate principal amount of \$_____, FOR THE PURPOSE OF PROVIDING FUNDS TO REFUND THE BOARD'S PERMANENT UNIVERSITY FUND REFUNDING BONDS, SERIES 1988, MATURING ON JULY 1, IN THE YEARS _____, IN THE OUTSTANDING AGGREGATE PRINCIPAL AMOUNT OF \$_____, THE BOARD'S PERMANENT UNIVERSITY FUND REFUNDING BONDS, SERIES 1991, MATURING ON JULY 1, IN THE YEARS _____, IN THE OUTSTANDING AGGREGATE PRINCIPAL AMOUNT OF \$_____, AND THE BOARD'S PERMANENT UNIVERSITY FUND BONDS, SERIES 1992B, MATURING ON JULY 1, IN THE YEARS _____, IN THE OUTSTANDING AGGREGATE PRINCIPAL AMOUNT OF \$_____.

ON _____ 1, 200__, or on any interest payment date thereafter, the Bonds of this Series may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole or in part in any integral multiple of \$5,000 principal amount, and if in part, the particular Bonds or portions thereof to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000 principal amount), at a redemption price [equal to the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption;] [expressed as a percentage of par as set forth below, plus accrued interest to the date fixed for redemption:

Redemption Period (both dates inclusive)	Redemption Price
_____, _____ to _____, _____	_____ %
_____, _____ to _____, _____	_____ %
_____, _____ and thereafter	_____ %]*

provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

The Bonds of this Series maturing on _____ are subject to mandatory sinking fund redemption prior to scheduled maturity in the following amounts, on the following dates at a price of par, without premium, plus accrued interest to the date fixed for redemption:

Redemption Date	Principal Amount
_____(____)____	\$ _____

The principal amount of the Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any Bonds, which, at least 45 days prior to the mandatory sinking fund

 *If Bond Purchase Contract provides for optional redemption of Bonds, bracketed language in alternative form to be used depending on whether Bonds are subject to optional redemption at par or with premium.

redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent for cancellation, or (2) shall have been acquired and cancelled by the Paying Agent at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

AT LEAST 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial publication, journal, or report of general circulation among securities dealers in the City of New York, New York (including, but not limited to, The Bond Buyer or The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter). Such notice also shall be sent by the Registrar by United States mail, first-class postage prepaid, not less than 30 days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th day prior to such redemption date on the Registration Books kept by the Registrar; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof. By the date fixed for any such redemption, due provision shall be made with the Paying Agent for the payment of the required redemption price for the Bonds or portions thereof that are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is published and if due provision for such payment is made, all as provided above, the Bonds or portions thereof that are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive from the Paying Agent the redemption price plus accrued interest, out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount, at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Board, all as provided in the Bond Resolution.

THIS BOND OR ANY PORTION HEREOF IN ANY INTEGRAL MULTIPLE OF \$5,000 principal amount may be assigned and shall be transferred only in the Registration Books of the

Board kept by the Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Resolution. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing assignment of this Bond or any portion hereof in any integral multiple of \$5,000 principal amount to the assignee or assignees in whose name or names this Bond or any such portion hereof is to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Registrar in conversion of and exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the conversion and exchange of other Bonds. The Board shall pay the Registrar's fees and charges, if any, for making such transfer, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The registered owner of this Bond shall be deemed and treated by the Board, the Paying Agent and the Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and the Board, the Paying Agent and the Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, in the denomination of \$5,000 principal amount or any integral multiple thereof. As provided in the Bond Resolution, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be converted into and exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, and bearing interest at the same rate, in any denomination or denominations in any integral multiple of \$5,000 principal amount as requested in writing by the appropriate registered owner or assignee, as the case may be, upon surrender of this Bond to the Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Resolution. The Board shall pay the Registrar's standard or customary fees and charges for converting and exchanging any Bond or any portion thereof, but the one requesting such conversion and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange.

THE REGISTRAR shall not be required to make any transfer of registration of this Bond or any portion hereof, or any conversion and exchange hereof [(i) with respect to any Bond or portion

thereof called for redemption prior to maturity, within 45 days prior to its redemption date or (ii)]** during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent or Registrar for the Bonds is changed by the Board, resigns, or otherwise ceases to act as such, the Board has covenanted in the Bond Resolution that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; and that the interest on and principal of this Bond, and the other Bonds of this Series, are equally and ratably secured by and payable from a first lien on and pledge of the two-thirds interest of The University of Texas System in the Available University Fund (consisting of the dividends, interest and other income from the Permanent University Fund (less administrative expenses), including the net income attributable to the surface of Permanent University Fund land) that is created and administered under the Texas Constitution, as described more fully in the Bond Resolution, all in accordance with article VII, section 18 of the Texas Constitution, as amended, and other applicable laws.

THE BOARD heretofore has issued its Permanent University Fund Refunding Bonds, Series 1988 (a portion of which are being refunded by the Bonds), its Permanent University Fund Refunding Bonds, Series 1991 (a portion of which are being refunded by the Bonds), its Permanent University Fund Refunding Bonds, Series 1992A and its Permanent University Fund Bonds, Series 1992B (a portion of which are being refunded by the Bonds). All of the aforesaid bonds, which will be outstanding following issuance of the Bonds, also are secured by a first lien on and pledge of the interest of The University of Texas System in the Available University Fund, and are on a parity with and of equal dignity in all respects with the Bonds. The Board has reserved the right, subject to the restrictions referred to in the Bond Resolution, (i) to issue Additional Parity Bonds and Notes that also may be secured by and made payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund, in the same manner and to the

**Include bracketed language only if Bond Purchase Contract provides for redemption of the Bonds prior to maturity.

same extent as this Bond and other obligations of the Board on a parity therewith, and (ii) to make certain amendments to the Bond Resolution with the approval of the owners of 51% in principal amount of all outstanding bonds and notes that are secured by and payable from a first lien on and pledge of the aforesaid interest of The University of Texas System in the Available University Fund.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds raised or to be raised by taxation or from any source whatsoever other than specified in the Bond Resolution.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Resolution, agrees to be bound by such terms and provisions, acknowledges that the Bond Resolution is duly recorded and available for inspection in the official minutes and records of the Board, and agrees that the terms and provisions of this Bond and the Bond Resolution constitute a contract between each registered owner hereof and the Board.

IN WITNESS WHEREOF, the Board has caused this Bond to be signed with the manual or facsimile signature of the Chairman of the Board and countersigned with the manual or facsimile signature of the Executive Secretary of the Board, and has caused the official seal of the Board to be duly impressed, or placed in facsimile, on this Bond.

(facsimile signature)
Executive Secretary, Board of
Regents of The University of Texas System

(facsimile signature)
Chairman, Board of Regents
of The University of Texas System

(BOARD SEAL)

(b) The registration certificate of the Comptroller shall be affixed or attached to each of the Initial Bonds and shall be in substantially the following form:

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS

REGISTER NO. _____

THE STATE OF TEXAS

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has this day been duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS MY HAND AND SEAL OF OFFICE at Austin, Texas this

Comptroller of Public Accounts
of the State of Texas

(c) A Registrar's Authentication Certificate shall be printed on each Bond (other than the Initial Bonds), in substantially the following form:

REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Resolution described in this Bond; and that the initial Bonds of the series of Bonds of which this Bond is a part were approved by the Attorney General of the State of Texas.

Registrar

Dated: _____

Authorized Signature

(d) Assignment provisions shall be printed on the back of each Bond, in substantially the following form:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or Taxpayer Identification Number)

(print or typewrite Assignee's name and address, including zip code)

_____ and hereby irrevocably constitutes and appoints

_____ attorney to transfer the registration of this Bond on the Registrar's Registration Books with full power of substitution in the premises.

Date: _____

Signature Guaranteed:

NOTICE: This signature must be guaranteed by a member of the New York Stock Exchange or a commercial bank or trust company.

Registered Owner
NOTICE: This signature must correspond with the name of the Registered Owner appearing on the face of this Bond.

(e) The approving legal opinion of the Board's Bond Counsel and the assigned CUSIP numbers may, at the option of the Authorized Representative, be printed on the Bonds but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bond.

Section 2.07. EXECUTION OF BONDS. The Bonds shall be executed on behalf of the Board by the Chairman and the Executive Secretary of the Board, by their manual or facsimile signatures, and the official seal of the Board shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by said officers of the Board, and such facsimile seal on the Bonds shall have

the same effect as if the official seal of the Board had been manually impressed upon each of the Bonds. In the event that any officer of the Board whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes as if such officer had remained in such office.

Section 2.08. AUTHENTICATION OF BONDS. Except for the Initial Bonds, which shall not be authenticated by the Registrar, all other Bonds shall bear an authentication certificate, substantially in the form provided in Section 2.06 of this Resolution. No Bonds, except for the Initial Bonds, shall be deemed to be issued or outstanding, or be valid or obligatory for any purpose, or be entitled to any security or benefit of this Resolution unless and until such Bond has been duly authenticated by the Registrar by the execution of the authentication certificate appearing on such Bond. The authentication certificate appearing on any Bond shall be deemed to have been duly executed by the Registrar if dated and manually signed by an authorized signatory of the Registrar. It shall not be required that the same signatory of the Registrar sign the authentication certificate on all the Bonds.

The Registrar shall authenticate any Bonds issued in exchange, substitution or replacement of other Bonds by executing the authentication certificate appearing thereon, upon satisfaction of the conditions set forth in Section 2.09 hereof.

Section 2.09. REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT OF BONDS. (a) The Board shall keep or cause to be kept at the designated transfer office of the Registrar books or records of the registration and transfer of the Bonds, and the Board hereby appoints the Registrar as agent to keep such Registration Books and make such transfers and registrations under such reasonable regulations as the Board and Registrar may prescribe. The Registrar shall make such transfers and registrations as provided herein.

The Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided. It shall be the duty, however, of each registered owner to notify the Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Board shall have the right to inspect the Registration Books during regular business hours of the Registrar, but otherwise the Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity.

(b) Each Bond issued and delivered pursuant to this Resolution, to the extent of the unpaid or unredeemed principal balance thereof, may, upon surrender of such Bond at the designated transfer office of the Registrar, together with a written request therefor duly executed by the

registered owner or its assignee, or its duly authorized attorney or representative, with guarantee of signatures satisfactory to the Registrar, at the option of the registered owner or such assignee, as appropriate, be converted into and exchanged for fully registered Bonds, without interest coupons, in an aggregate principal amount equal to the unpaid or unredeemed principal balance of any Bond so surrendered, and payable to the appropriate registered owner or assignee, as the case may be.

Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such Bond to the Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing (i) the assignment of the Bond, or any portion thereof in any Authorized Denomination, to the assignee thereof, and (ii) the right of such assignee to have the Bond or any such portion thereof registered in the name of such assignee. A form of assignment shall be printed or endorsed on each Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon the assignment and surrender of any Bond or portion thereof for transfer of registration, an authorized representative of the Registrar shall make such transfer in the Registration Books, and shall deliver a new, fully registered substitute Bond having the characteristics herein described, payable to such assignee (which then will be the registered owner of such new Bond), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or any portion thereof.

Bonds issued and delivered in conversion of and exchange for any other Bonds assigned and transferred or converted shall be in any Authorized Denomination requested in writing by the registered owner or assignee thereof, shall have all the characteristics and shall be in the form prescribed in the FORM OF BOND set forth in this Resolution, shall be in the same outstanding aggregate principal amount and shall have the same principal maturity date and bear interest at the same rate as the Bonds for which they are exchanged. The Board shall pay the Registrar's fees and charges, if any, for making such transfer or conversion and delivery of a substitute Bond, but the one requesting such transfer shall pay any taxes or other governmental charges required to be paid with respect thereto. The Registrar shall not be required to make any transfer of registration, conversion and exchange, or replacement (i) of any Bond or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii), with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

(c) If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any Authorized Denomination requested by the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation, at the expense of the Board.

(d) In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Registrar shall cause to be printed, executed, and delivered a new Bond of the same principal amount, maturity, and interest rate as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the Board and to the Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the Board and to the Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Registrar for cancellation the Bond so damaged or mutilated.

Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the Board may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this subsection.

Prior to the issuance of any replacement bond, the Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Board whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and proportionately with any and all other Bonds duly issued under this Resolution.

(e) The Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered Bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Resolution shall constitute one of the Bonds for all purposes of this Resolution, and may again be converted and exchanged or replaced. No additional ordinances, orders, or resolutions need be passed or adopted by the Board or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof. For purposes of Section 6 of article 717k-6, Texas Revised Civil Statutes Annotated, as amended, this Section of this Resolution shall constitute authority for the issuance of any substitute, exchange or replacement Bond hereunder without necessity of further action by the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Registrar, and the Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect provided in this Resolution. Upon the

execution of the Registrar's authentication certificate appearing on any converted and exchanged or replaced Bond, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the initial Bonds originally issued pursuant to this Resolution, approved by the Attorney General.

(f) Notwithstanding the foregoing, the Registrar shall not be required to make any transfer of registration of any Bond (or portion thereof), or any conversion or exchange of any Bond (or portion thereof) (i) with respect to any Bond (or portion thereof) called for redemption prior to maturity, within 45 days prior to the applicable redemption date, or (ii) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

Section 2.10. BOOK-ENTRY ONLY SYSTEM. As provided in Section 7.04 of this Resolution, the Initial Bonds shall be delivered against payment to the Underwriters thereof. The Underwriters shall be required to promptly surrender the Initial Bonds to the Registrar for exchange. Bonds issued in exchange shall be registered in the name of Cede & Co., as nominee of DTC, as registered owner of the Bonds, and held in the custody of DTC. Unless otherwise requested by DTC, a single certificate will be issued and delivered to DTC for each maturity of the Bonds. Beneficial owners of Bonds will not receive physical delivery of Bond certificates except as provided hereinafter. For so long as DTC shall continue to serve as securities depository for the Bonds as provided herein, all transfers of beneficial ownership interests will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of Bonds is to receive, hold or deliver any Bond certificate.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Board, the Paying Agent and the Registrar shall have no responsibility or obligation to any DTC Participant or to any person on whose behalf a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the Board, the Paying Agent and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, and (iii) the payment to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown in the Registration Books, of any amount with respect to principal of or premium, if any, or interest on the Bonds.

Replacement Bonds may be issued directly to beneficial owners of Bonds other than DTC, or its nominee, but only in the event that (i) DTC determines not to continue to act as securities depository for the Bonds (which determination shall become effective no less than 90 days after written notice to such effect to the Board, the Paying Agent and the Registrar); or (ii) the Board has

advised DTC of its determination (which determination is conclusive as to DTC and beneficial owners of the Bonds) that DTC is incapable of discharging its duties as securities depository for the Bonds; or (iii) the Board has determined (which determination is conclusive as to DTC and the beneficial owners of the Bonds) that the interests of the beneficial owners of the Bonds might be adversely affected if such book-entry only system of transfer is continued. Upon occurrence of any of the foregoing events, the Board shall use its best efforts to attempt to locate another qualified securities depository. If the Board fails to locate another qualified securities depository to replace DTC, the Board shall cause to be authenticated and delivered replacement Bonds, in certificate form, to the beneficial owners of the Bonds. In the event that the Board makes the determination noted in (ii) or (iii) above (provided that the Board undertakes no obligation to make any investigation to determine the occurrence of any events that would permit the Board to make any such determination), and has made provisions to notify the beneficial owners of Bonds of such determination by mailing an appropriate notice to DTC, it shall cause to be issued replacement Bonds in certificate form to beneficial owners of the Bonds as shown on the records of DTC provided to the Board.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by a book entry at DTC, the requirements in this Resolution of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect.

If at any time, DTC ceases to hold the Bonds, all references herein to DTC shall be of no further force or effect.

Section 2.11. CANCELLATION. All Bonds paid or redeemed in accordance with this Resolution, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with this Resolution shall be cancelled and destroyed by the Registrar.

Section 2.12. TEMPORARY BONDS. Pending the preparation of definitive Bonds, the Board may execute and, upon the Board's request, the Registrar shall authenticate and deliver, one or more temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any Authorized Denomination, substantially of the tenor of the definitive Bonds in lieu of which they are delivered, without coupons, with provision for registration and with such appropriate insertions, omissions, substitutions and other variations as the authorized officers of the Board executing such temporary Bonds may determine, as evidenced by their signing of such temporary Bonds.

Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the benefit and security of this Resolution. The Board, without unreasonable delay, shall prepare, execute and deliver to the Registrar, and thereupon, upon the presentation and surrender of the Bonds

in temporary form to the Registrar, the Registrar shall authenticate and deliver in exchange therefor Bonds of the same maturity and interest rate, in definitive form, in Authorized Denominations, and in the same aggregate principal amount, as the Bonds in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any holder of Bonds.

Section 2.13. OWNERSHIP OF BONDS. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Resolution, whether or not such Bond shall be overdue, and the Board, the Paying Agent and the Registrar shall not be affected by any notice to the contrary. Payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sums so paid.

Section 2.14. PAYING AGENT AND REGISTRAR. The Board shall act as the initial Registrar for the Bonds and shall perform such duties as are required by the Registrar hereunder. Pursuant to Article 717k-6, Texas Revised Civil Statutes Annotated, as amended, and particularly Section 6 thereof, the duty of conversion and exchange or replacement of Bonds as set forth in Section 2.09 hereof hereby is imposed upon the Registrar. The Board hereby appoints the Trust Company to act as the initial Paying Agent for paying the principal of and interest on the Bonds. The Paying Agent shall keep proper records of all payments made by the Board and the Paying Agent with respect to the Bonds as provided in this Resolution. The Board hereby covenants with the registered owners of the Bonds that it will pay the fees and charges, if any, of the Paying Agent for its services with respect to the payment of the principal of, premium, if any, and interest on the Bonds, when due.

Section 2.15. SUBSTITUTE PAYING AGENT AND REGISTRAR. The Board covenants with the registered owners of the Bonds that, at all times while the Bonds are outstanding, the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent and Registrar for the Bonds under this Resolution, and that the Paying Agent and Registrar will be one entity; provided, however, that during any period in which DTC is serving as securities depository for all of the outstanding Bonds, the Trust Company may be the Paying Agent and the Board may be the Registrar. The Board reserves the right to, and may, at its option, change the Paying Agent or the Registrar upon not less than 120 days written notice to the Paying Agent or the Registrar, as appropriate, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent or Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that it will promptly appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent and Registrar under this Resolution. Upon any change in the Registrar, the previous Registrar promptly shall transfer and deliver the Registration Books (or a

copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Registrar designated and appointed by the Board. Upon any change in the Paying Agent or the Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent or Registrar, as appropriate, to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent or Registrar, as appropriate. By accepting the position and performing as such, each Paying Agent and Registrar shall be deemed to have agreed to the provisions of this Resolution, and a certified copy of this Resolution shall be delivered to each Paying Agent and Registrar.

Section 2.16. INITIAL BONDS; APPROVAL BY ATTORNEY GENERAL; REGISTRATION BY COMPTROLLER. There shall be one Initial Bond for each maturity, numbered consecutively in the order of their maturity. Each Initial Bond shall be registered in the name, or at the direction, of J.P. Morgan Securities Inc., as book-running co-senior managing underwriter. The Initial Bonds shall be submitted to the Attorney General for approval and shall be registered by the Comptroller.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS; ADDITIONAL PARITY BONDS AND NOTES

Section 3.01. SECURITY AND PLEDGE. Pursuant to the provisions of section 18 of article VII of the Texas Constitution, as amended, all the Bonds, and any Additional Parity Bonds and Notes hereafter issued, and the interest thereon, shall be and are hereby equally and ratably secured, together with the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds, by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund.

Section 3.02. PAYMENT OF BONDS AND ADDITIONAL PARITY BONDS AND NOTES. (a) The Comptroller previously has established and shall maintain in the State Treasury a fund to be known as "Board of Regents of The University of Texas System Permanent University Fund Bonds Interest and Sinking Fund." The Board and the officers of the System shall cause the Comptroller, in addition to taking the actions required by the Series 1988 Resolution to pay the Series 1988 Bonds, by the Series 1991 Resolution to pay the Series 1991 Bonds, by the Series 1992A Resolution to pay the Series 1992A Bonds and by the Series 1992B Resolution to pay the Series 1992B Bonds, (i) to transfer to the Interest and Sinking Fund, out of The University of Texas System Available University Fund (the fund in the State Treasury to which is deposited the Interest of the System in the Available University Fund), on or before each date upon which principal of, premium, if any, or interest on the Bonds and the Additional Parity Bonds and Notes, when issued, is due and payable, whether by reason of maturity or optional or mandatory redemption prior to

maturity, and (ii) to withdraw from the Interest and Sinking Fund, and deposit with the Paying Agent on or before each such date, the amounts of interest or principal, premium and interest which will come due on the Bonds and Additional Parity Bonds and Notes on each such date, and in such manner that such amounts, in immediately available funds, will be on deposit with the Paying Agent on or before each such date.

(b) When Additional Parity Bonds or Notes are issued pursuant to the provisions of this Resolution or the Series 1988 Resolution or the Series 1991 Resolution or the Series 1992A Resolution or the Series 1992B Resolution, substantially the same procedures as provided above shall be followed in connection with paying the principal of and interest on such Additional Parity Bonds or Notes when due; provided, however, that other and different banks or places of payment (paying agents) and paying agents and registrars and dates and methods of payment and other procedures not in conflict with this Resolution may be named and provided for in connection with each issue of Additional Parity Bonds or Notes. In the event that any such Additional Parity Bonds or Notes are made redeemable prior to maturity, the resolution or resolutions authorizing the issuance of such Additional Parity Bonds or Notes shall prescribe the appropriate procedures for redeeming same.

Section 3.03. DISPOSITION OF FUNDS. After provision has been made for the payment of the principal of and interest on the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds, the Bonds and any Additional Parity Bonds and Notes, when issued, the balance of the Interest of the System in the Available University Fund each year shall be made available to the Board in the manner provided by law and by regulations of the Board to be used by the Board as it lawfully may direct.

Section 3.04. ADDITIONAL PARITY BONDS AND NOTES. The Board reserves the right and shall have full power at any time and from time to time, to authorize, issue, and deliver additional bonds and notes on a parity with the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds in as many separate installments or series as deemed advisable by the Board, but only for the purposes and to the extent provided in article VII, section 18 of the Texas Constitution, as amended, or in any amendment hereafter made to said article VII, section 18 of the Texas Constitution, or for refunding purposes as provided by law. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, in the same manner and to the same extent as are the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds, the Series 1992B Bonds and the Bonds issued pursuant to this Resolution, and the Bonds and the Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be on a parity and in all respects of equal dignity with each other and with the Bonds, the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds. It is further covenanted that no installment or series of Additional

Parity Bonds or Notes shall be issued and delivered unless the Authorized Representative, or some other officer of the System designated by the Board, executes:

(a) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal and Interest Requirements of the installment or series of Additional Parity Bonds or Notes then proposed to be issued and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of said proposed installment or series; and

(b) a certificate to the effect that the total principal amount of (i) all Bonds and Additional Parity Bonds and Notes and (ii) all other obligations of the Board, including but not limited to the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds, that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund, that will be outstanding after the issuance and delivery of the installment or series of Additional Parity Bonds or Notes then proposed to be issued will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of real estate) at the time the proposed series or installment of Additional Parity Bonds or Notes is issued.

For purposes of calculating the Principal and Interest Requirements under this section with respect to any obligations of the Board bearing interest at interest rates that are variable or adjustable, the "maximum rate then permitted by law," for purposes of the definition of "Principal and Interest Requirements" set forth in Section 1.01 hereof, shall be deemed to be the maximum "net effective interest rate" permitted under article 717k-2, Texas Revised Civil Statutes Annotated, as such article may be amended from time to time, or such other maximum interest rate permitted to be borne by such obligations by then-applicable law. In addition, for purposes of this Resolution, including but not limited to Subsection 3.04(b) above, any obligation of the Board that is payable from amounts appropriated, pursuant to article VII, section 18 of the Texas Constitution, as amended, including any amendment hereafter made to said article VII, section 18 of the Texas Constitution, for the support and maintenance of The University of Texas at Austin or System administration does not and shall not constitute an obligation secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund.

ARTICLE IV

REMEDIES

Section 4.01. REMEDIES. Any owner or holder of any of the Bonds or Additional Parity Bonds or Notes, when issued, in the event of default in connection with any covenant contained

herein, or default in the payment of said obligations, or of any interest due thereon, shall have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the moneys herein pledged or for enforcing any covenant herein contained.

ARTICLE V

GENERAL COVENANTS OF THE BOARD

Section 5.01. GENERAL COVENANTS OF THE BOARD. The Board covenants and agrees, in addition to the other covenants of the Board hereunder, as follows:

(a) That while any PUF Bonds are outstanding and unpaid the Board will maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law;

(b) That the Board will restrict expenditures for administering the Permanent University Fund to a minimum consistent with prudent business judgment;

(c) That the Board duly and punctually will pay or cause to be paid the principal of every PUF Bond, when issued, and the interest thereon, from the sources, on the days, at the places, and in the manner mentioned and provided in such obligations, according to the true intent and meaning thereof, and that it will duly cause to be called for redemption prior to maturity, and will cause to be redeemed prior to maturity, all PUF Bonds, when issued, that by their terms are required to be redeemed mandatorily prior to maturity, when and as so required, and that it faithfully will do and perform and at all times will observe fully all covenants, undertakings and provisions contained in this Resolution and in the aforesaid obligations; and

(d) That, except for the PUF Bonds, and the interest thereon, the Board will not at any time create or allow to accrue or exist any lien or charge upon the Permanent University Fund or the Interest of the System in the Available University Fund, unless such lien or charge is made junior and subordinate in all respects to the liens, pledges, and covenants in connection with the PUF Bonds, but the right to issue junior and subordinate lien obligations payable from the Interest of the System in the Available University Fund is specifically reserved by the Board; and that the lien created by this Resolution will not be impaired in any manner as a result of any action or non-action on the part of the Board or officers of the System, and the Board will, subject to the provisions hereof, continuously preserve the Permanent University Fund and each and every part thereof.

ARTICLE VI

PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION

Section 6.01. **GENERAL TAX COVENANT.** The Board intends that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to sections 103 and 141 through 150 of the Code, and applicable regulations. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Board covenants and agrees to comply with each requirement of this Article VI; provided, however, that the Board shall not be required to comply with any particular requirement of this Article VI if the Board has received a Counsel's Opinion that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Board has received a Counsel's Opinion to the effect that compliance with some other requirement set forth in this Article VI will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such Counsel's Opinion shall constitute compliance with the corresponding requirement specified in this Article VI.

Section 6.02. **USE OF PROCEEDS.** The Board covenants and agrees that its use of the Net Proceeds of the Bonds and the Refunded Bonds will at all times satisfy the requirements set forth in this Section.

(a) The Board will use all of the Net Proceeds of the Bonds to acquire the "Escrowed Securities" referred to in the Escrow Agreement sufficient to pay the principal of or interest on the Refunded Bonds and to pay the costs of issuing the Bonds except for amounts, if any, described in the Report as the rounding amount and the ending cash balance in the escrow fund established pursuant to the Escrow Agreement. The Board has limited and will limit the amount of original or investment proceeds of each issue of which the Refunded Bonds are a part to be used (other than use as a member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of each issue of which the Refunded Bonds are a part ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on a trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by a governmental unit. Any use of proceeds of the Refunded Bonds or the Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 93-19, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not a governmental unit.

(b) The Board has not permitted and will not permit more than five percent of the Net Proceeds of any issue of which the Refunded Bonds are a part to be used in the trade or business of any person other than a governmental unit if such use is unrelated to the governmental purpose of such issue. Further, the amount of private-use proceeds of the Refunded Bonds in excess of five percent of the Net Proceeds of each issue of which the Refunded Bonds are a part ("excess private-use proceeds") did not and will not exceed the proceeds of such issue expended for the governmental purpose of the Refunded Bonds to which such excess private-use proceeds relate.

(c) The Board has not permitted and will not permit an amount of proceeds of any issue of which the Refunded Bonds are a part exceeding the lesser of (i) \$5,000,000 or (ii) five percent of the Net Proceeds of the Refunded Bonds such issue to be used, directly or indirectly, to finance loans to persons other than governmental units.

When used in this Article VI, the term "Net Proceeds" of the Bonds and the Refunded Bonds shall mean the proceeds from the sale of each respective issue of which the Bonds and the Refunded Bonds are a part, including investment earnings on such proceeds, less accrued interest.

Section 6.03. NO FEDERAL GUARANTY. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and applicable regulations thereunder, except as permitted by section 149(b)(3) of the Code and such regulations.

Section 6.04. BONDS ARE NOT HEDGE BONDS. The Board represents that not more than 50 percent of the proceeds of each issue of which the Refunded Bonds are a part was invested in nonpurpose investments (as defined in section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of section 149(g)(3)(A)(ii) of the Code, and the Board reasonably expected at the time each such issue was issued that at least 85 percent of the spendable proceeds of each such issue would be used to carry out the governmental purposes of such issues within the corresponding three-year period beginning on the respective dates of issue of such bonds.

Section 6.05. NO-ARBITRAGE COVENANT. The Board shall certify, through the Authorized Representative that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the Board will reasonably expect that the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder. Moreover, the Board covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from proceeds of the Bonds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so

that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and applicable regulations thereunder.

Section 6.06. **ARBITRAGE REBATE.** The Board will take all necessary steps to comply with the requirement that certain amounts earned by the Board on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code) be rebated to the federal government. Specifically, the Board will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the Board allocable to other bond issues of the Board or moneys that do not represent gross proceeds of any bonds of the Board, (ii) calculate at such times as are required by applicable regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary of the date of delivery of the Bonds, all amounts required to be rebated to the federal government. Further, the Board will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

Section 6.07. **INFORMATION REPORTING.** The Board covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the 15th day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and applicable regulations thereunder.

Section 6.08. **CONTINUING OBLIGATION.** Notwithstanding any other provision of this Resolution, the Board's obligations under the covenants and provisions of this Article VI shall survive the defeasance and discharge of the Bonds.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. **INDIVIDUALS NOT LIABLE.** All covenants, stipulations, obligations, and agreements of the Board contained in this Resolution shall be deemed to be covenants, stipulations, obligations, and agreements of the System and the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be deemed to be a covenant, stipulation, obligation, or agreement

of any member of the Board or agent or employee of the Board in his individual capacity and neither the members of the Board nor any officer thereof shall be liable personally on the Bonds or Additional Parity Bonds or Notes when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 7.02. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Resolution, except to the extent provided in subsection (c) of this Section, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent and the Registrar for the payment of their services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Interest of the System in the Available University Fund, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for the purposes of Section 3.04 hereof or any other purpose.

(b) Any moneys so deposited with or made available to the Paying Agent also may be invested at the written direction of the Board in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Until all Defeased Bonds shall have become due and payable, the Paying Agent and the Registrar shall perform their respective services as Paying Agent and Registrar, as applicable, for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by this Resolution.

Section 7.03. AMENDMENT OF RESOLUTION. (a) The owners of PUF Bonds aggregating 51% in principal amount of the aggregate principal amount of then-outstanding PUF Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of PUF Bonds that may be deemed necessary or desirable by the Board:

provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the outstanding PUF Bonds, the amendment of the terms and conditions in said resolutions or in any PUF Bond so as to:

- (1) Make any change in the maturity of the outstanding PUF Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding PUF Bonds;
- (3) Reduce the amount of the principal payable on the outstanding PUF Bonds;
- (4) Modify the terms of payment of principal of or interest on the outstanding PUF Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all of the PUF Bonds then outstanding;
or
- (6) Change the minimum percentage of the principal amount of PUF Bonds necessary for consent to such amendment.

(b) If at any time the Board shall desire to amend a resolution under this Section, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each paying agent/registrar for the PUF Bonds for inspection by all owners of PUF Bonds. Such publication is not required, however, if notice in writing is given to each owner of PUF Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by the owners of at least 51% in aggregate principal amount of all PUF Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then outstanding PUF Bonds and all future PUF Bonds thereafter shall be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

(e) Any consent given by the owner of a PUF Bond pursuant to the provision of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same PUF Bond during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Registrar for such PUF Bonds and the Board, but such revocation shall not be effective if the owners of 51% in aggregate principal amount of the then-outstanding PUF Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section the ownership and other matters relating to all PUF Bonds shall be determined from the registration books kept for such bonds by the respective paying agent/registrar therefor.

Section 7.04. ISSUANCE AND SALE OF BONDS. (a) The Authorized Representative is hereby authorized to act for and on behalf of the Board in connection with the issuance and sale of the Bonds. In that capacity, the Authorized Representative, acting for and on behalf of the Board, shall determine the date for issuance and sale of the Bonds, the amount of Bonds to be issued and sold and the particular Series 1988 Bonds, Series 1991 Bonds and Series 1992B Bonds to be refunded by the Bonds. The Authorized Representative, acting for and on behalf of the Board, is also hereby authorized to approve, execute and deliver the Bond Purchase Contract with the Underwriters and therein to set forth the price at which the Bonds shall be sold, the principal amortization schedule for the Bonds, the redemption features of the Bonds, the rate or rates of interest to be borne by the Bonds, the Refunded Bonds to be refunded by the Bonds, and other matters relating to the issuance, sale and delivery of the Bonds and the refunding of the Refunded Bonds; provided, that, the Bond Purchase Contract must provide for the Bonds to be sold on terms that produce (i) interest rate or rates that comply with Section 2.03 of this Resolution, (ii) a present value savings of not less than an amount equal to .045 times the principal amount of the Refunded Bonds, when the scheduled debt service payable on the Bonds during each Bond Year is subtracted from the scheduled debt service payable on the Refunded Bonds during the same Bond Year and the remainder is discounted to the date of the Bond Purchase Contract at a discount factor equal to the yield on the Bonds determined in accordance with section 148 of the Code, and (iii) a sales price for the Bonds at not less than 95 percent of the par amount thereof (plus accrued interest from the date of the Bonds to the date of delivery thereof against payment therefor). The Authorized Representative's approval of the Bond Purchase Contract shall be conclusively evidenced by his execution thereof. J.P. Morgan Securities Inc. and Morgan Stanley & Co., Incorporated, are hereby designated as the co-senior managing underwriters. The Authorized Representative, acting for and on behalf of the Board, shall select such additional investment banking firms as deemed appropriate to assure that the Bonds are sold on advantageous terms. It is further provided, however, that notwithstanding the foregoing provisions, the Bonds shall not be delivered unless prior to delivery,

the Bonds have been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long-term obligations, as required by article 717q, Texas Revised Civil Statutes Annotated, as amended.

(b) Prior to execution of the Bond Purchase Contract, the Authorized Representative, acting for and on behalf of the Board, shall cause a preliminary official statement to be prepared for distribution by the Underwriters to prospective purchasers of the Bonds, such document to be in substantially the form presented to the Board on the date of this Resolution, which form is hereby approved, but with such changes and completions as the Authorized Representative may deem necessary or appropriate to enable the Authorized Representative, acting for and on behalf of the Board, to deem the preliminary official statement to be final as of its date, except for such omissions as are permitted by Rule 15c2-12. Within seven business days after the execution of the Bond Purchase Contract, the Authorized Representative, acting for and on behalf of the Board, shall cause a final official statement to be provided to the Underwriters in compliance with Rule 15c2-12.

(c) Following the execution of the Bond Purchase Contract, the Authorized Representative shall notify the Paying Agent in writing of the identity of the Underwriters and of the following terms for the Bonds: dated date; principal amount; date for issue; maturities; redemption provisions; rate or rates of interest; and first interest payment date. The Authorized Representative shall deliver the Initial Bonds to the Underwriters against payment therefor. Incident to the delivery of the Bonds, the Authorized Representative shall execute:

(1) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal and Interest Requirements (calculated in the manner described in Section 3.04 of this Resolution) of the Bonds and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of the Bonds;

(2) a certificate to the effect that the total principal amount of (a) all Bonds and Additional Parity Bonds and Notes and (b) all other obligations of the Board, including but not limited to the Series 1988 Bonds, the Series 1991 Bonds, the Series 1992A Bonds and the Series 1992B Bonds, that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund, that will be outstanding after the issuance and delivery of the Bonds will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of real estate) at the time the Bonds are issued; provided that any obligation of the Board that is payable from amounts appropriated, pursuant to article VII, section 18 of the Texas Constitution, as amended, including any amendment hereafter made to said article VII, section 18 of the Texas Constitution, for the support and maintenance of The University of Texas at Austin or System administration does

not and shall not constitute an obligation secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund;

(3) a certificate to the effect that all action on the part of the Board necessary for the valid issuance of the Bonds issued has been taken, that such Bonds have been issued in compliance with the terms of this Resolution; and

(4) a certificate to the effect that the Board is in compliance with the covenants set forth in Articles V and VI of this Resolution as of the date of such certificate.

Section 7.05. REFUNDING OF REFUNDED BONDS; ESCROW AGREEMENT. (a) As provided in Section 7.04 above, the Authorized Representative shall determine the particular Series 1988 Bonds, Series 1991 Bonds and Series 1992B Bonds to be refunded by the Bonds, subject to the minimum net present value savings requirement of said Section 7.04; provided, however, that the following are the only such bonds that the Authorized Representative may consider in determining the Refunded Bonds:

Series 1988 Bonds maturing on or after July 1, 1999, in the outstanding aggregate principal amount of \$25,000,000;

Series 1991 Bond maturing on or after July 1, 2002, in the outstanding aggregate principal amount of \$166,330,000; and

Series 1992B Bonds maturing on or after July 1, 2003, in the outstanding aggregate principal amount of \$54,855,000.

(b) Subject to the execution of the Bond Purchase Contract and the determination by the Authorized Representative of the Refunded Bonds to be refunded by the Bonds, the Board irrevocably calls the particular Series 1988 Bonds, Series 1991 Bonds and Series 1992B Bonds constituting Refunded Bonds for redemption prior to maturity on the redemption dates and at the redemption prices, expressed as a percentage of par (plus accrued interest to the date fixed for redemption), as follows:

<u>Refunded Bonds</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
Series 1988 Bonds	July 1, 1998	100%
Series 1991 Bonds	July 1, 2001	102%
Series 1992B Bonds	July 1, 2002	100%

Upon execution of the Bond Purchase Contract, the Authorized Representative, acting for and on behalf of the Board, shall cause notice of such redemption to be given in accordance with the Series 1988 Resolution, the Series 1991 Resolution and the Series 1992B Resolution, as appropriate.

(c) The discharge and defeasance of the Refunded Bonds shall be effected pursuant to the terms and provisions of the Escrow Agreement and the Authorized Representative, acting for and on behalf of the Board, is hereby authorized to approve, execute and deliver for and on behalf of the Board the Escrow Agreement to reflect the appointment, responsibilities and compensation of the Escrow Agent, such approval to be conclusively, evidenced by the Authorized Representative's execution thereof.

(d) To assure the purchase of the "Escrowed Securities" referred to in the Escrow Agreement, the Authorized Representative, acting for and on behalf of the Board, is hereby authorized to subscribe for, agree to purchase and purchase obligations of the United States of America, in such amounts and maturities and bearing interest at such rates as may be provided for in the Escrow Agreement, and to execute any and all subscriptions, purchase agreements, commitments, letters of authorization and other documents necessary to effectuate the foregoing.

(e) To satisfy in a timely manner all of the Board's obligations under this Resolution and the Escrow Agreement, the Authorized Representative and all other appropriate officers and agents of the Board are hereby severally authorized and directed for and on behalf of the Board to take all other actions that are reasonably necessary to provide for the refunding of the Refunded Bonds, including, without limitation, executing and delivering for and on behalf of the Board all certificates, consents, receipts, requests and other documents as may be reasonably necessary to satisfy the Board's obligations under the Escrow Agreement and this Resolution and to direct the transfer and application of funds of the Board consistent with the provisions of such Escrow Agreement and this Resolution.

(f) It is hereby found and determined that the refunding of the Refunded Bonds is advisable and necessary in order to restructure the debt service requirements of the Board and thereby to achieve a present value savings.

Section 7.06. APPLICATION OF BOND PROCEEDS. Proceeds from the sale of the Bonds shall, promptly upon receipt thereof, be applied by the Authorized Representative as follows:

- (i) accrued interest shall be deposited into the Interest and Sinking Fund;
- (ii) the remaining proceeds from the sale of the Bonds shall, to the extent required, be applied to establish an escrow fund in an amount, together with investment earnings thereon, sufficient to accomplish the discharge and final payment of the Refunded

Bonds and, to the extent not otherwise provided for, to pay all expenses arising in connection with the issuance of the Bonds, the establishment of such escrow fund and the refunding of the Refunded Bonds; and

- (iii) any proceeds of the Bonds remaining after making all such deposits and payments shall be deposited into the Interest and Sinking Fund.

Any sale proceeds of the Bonds remaining after making all deposits and payments provided for above shall be deposited into the Interest and Sinking Fund.

Section 7.07. DTC LETTER OF REPRESENTATION. The Authorized Representative, acting for and on behalf of the Board, is hereby authorized and directed to approve, execute and deliver, if deemed necessary or advisable by said Authorized Representative, a Letter of Representation with DTC with respect to the Bonds to implement the book-entry only system of Bond registration, such approval to be conclusively evidenced by the Authorized Representative's execution thereof.

Section 7.08. CONTINUING DISCLOSURE UNDERTAKING. (a) *Annual Reports*. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year ending in or after 1996, financial information and operating data with respect to the Permanent University Fund and the Interest of the System in the Available University Fund of the general type included in the final Official Statement authorized by Section 7.04 of this Resolution, being the information described in Exhibit A hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit A hereto and (2) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided within the required period, then the Board shall provide unaudited financial statements for the applicable Fiscal Year to each NRMSIR and any SID, and shall file audited financial statements when and if audited financial statements become available.

If the Board changes the Fiscal Year, it will notify each NRMSIR and any SID of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Subsection may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(b) *Material Event Notices.* The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds;
and
- K. Rating changes.

The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with Subsection 7.08(a) above by the time required.

(c) *Limitations, Disclaimers, and Amendments.* The Board shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Permanent University Fund or the Interest of the System in the Available University Fund remains an "obligated person" with respect to the Bonds within the meaning of Rule 15c2-12, except that the Board in any event will give the notice otherwise required under this Resolution of any Bond calls and defeasance that cause the Permanent University Fund or the Interest of the System in the Available University Fund to be no longer "obligated persons."

The provisions of this Section 7.08 are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, expressed or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the Permanent University Fund or the Interest of the System in the Available University Fund or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Board does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE BOARD BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE BOARD, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Board in observing or performing its obligations under this Section shall constitute a breach of or default under this Resolution for purposes of any other provision of this Resolution.

Nothing in this Section is intended or shall act to disclaim, waive or otherwise limit the duties of the Board under federal and state securities laws.

The provisions of this Section may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board or the Permanent University Fund, but only in (1) the provisions of this subsection, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (B) a person that is unaffiliated with the Board and the Permanent University Fund (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the Board so amends the provisions of this Section, it shall include with any amendment financial information or operating data next provided in accordance with Subsection (a) of this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

(d) *Definitions.* As used in this Section 7.08, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the rule from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of Rule 15c2-12 from time to time.

Section 7.09. FURTHER PROCEDURES. The Chairman of the Board, the Executive Secretary of the Board, the Authorized Representative, the Vice Chancellor and General Counsel of the System, and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Bonds, the preliminary official statement and the official statement for the Bonds, the Escrow Agreement, the Bond Purchase Contract and the DTC Letter of Representation. In case any officer whose signature appears on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if he or she had remained in office until such delivery.

ADOPTED AND APPROVED this the 5th day of January, 1996.

Chairman
Board of Regents of
The University of Texas System

Attest:

Executive Secretary
Board of Regents of
The University of Texas System

[SEAL]

EXHIBIT A

CONTINUING DISCLOSURE -
DESCRIPTION OF ANNUAL FINANCIAL INFORMATION

Pursuant to Subsection 7.08(a), the information to be updated in the Board's annual filing includes all quantitative financial information and operating data with respect to the Permanent University Fund or the Interest of the System in the Available University Fund of the general type included in the Official Statement under the heading "Permanent University Fund" and in Appendices A, B and C. The updated information will include annual financial statements with respect to the Permanent University Fund provided on a cash basis, or such other basis as the Board may be required to employ from time to time pursuant to state law or regulation.

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY __, 1996

NEW ISSUE: Book-Entry Only

RATINGS: See "Ratings."

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "Tax Matters" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

\$220,735,000*
Board of Regents of
The University of Texas System
Permanent University Fund
Refunding Bonds, Series 1996

Dated: January 1, 1996

Due: July 1, as shown below

The Bonds will constitute valid and legally binding special obligations of the Board of Regents (the "Board") of The University of Texas System (the "System"), secured by and payable from a first lien on and pledge of the "Interest of the System" in the "Available University Fund" (as defined herein) on a parity with the Board's outstanding Permanent University Fund Bonds, Series 1988, Series 1991, Series 1992A and Series 1992B. The Board has reserved the right to issue additional bonds on a parity with the Bonds. **THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE SYSTEM, THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION OF THE STATE OF TEXAS. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS.** See "Security for the Bonds."

The Bonds are initially issuable only to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Interest on and principal of the Bonds will be payable by the Texas Treasury Safekeeping Trust Company, the initial Paying Agent, to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to DTC Participants (as defined herein) who will make payments to the beneficial owners of the Bonds. See "Description of the Bonds -- Book-Entry Only System."

Proceeds from the sale of the Bonds will be used for the purpose of refunding certain outstanding obligations of the Board. See "Plan of Financing."

The Bonds will mature on July 1 in each of the years, in the amounts and will bear interest at the per annum rates shown below. The Bonds will bear interest from their date and interest will be payable January 1 and July 1 of each year, commencing July 1, 1996, until maturity or prior redemption.

MATURITY SCHEDULE
(July 1)

<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Yield</u>	<u>Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Yield</u>
	1996				2005		
	1997				2006		
	1998				2007		
	1999				2008		
	2000				2009		
	2001				2010		
	2002				2011		
	2003				2012		
	2004				2013		

[Accrued interest from January 1, 1996 to be added.]

The Bonds are subject to optional redemption prior to maturity as described herein. See "Description of the Bonds -- Redemption."

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to approval of legality by the Attorney General of the State of Texas and by Vinson & Elkins L.L.P., Austin and Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriters by McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas. The Bonds are expected to be available for delivery through The Depository Trust Company on or about _____, 1996.

J. P. Morgan Securities Inc.

Morgan Stanley & Co.
Incorporated

Artemis Capital Group, Inc.
M. R. Beal & Company
Estrada, Hinojosa & Company, Inc.
Goldman, Sachs & Co.
John Nuveen & Co. Incorporated

George K. Baum & Company
A. G. Edwards & Sons, Inc.
First Southwest Company
Grigsby Brandford & Co., Inc.
Rauscher Pierce Refsnes, Inc.

Walton Johnson & Company

* Preliminary, subject to change

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM

OFFICERS

Bernard Rapoport, Chairman,
Martha E. Smiley, Vice-Chairman
Thomas O. Hicks, Vice-Chairman
Arthur H. Dilly, Executive Secretary

MEMBERS

Terms Expire February 1, 1997

Rev. Zan W. Holmes, Jr.	.	.	.	.	Dallas
Bernard Rapoport	.	.	.	.	Waco
Ellen C. Temple	.	.	.	.	Lufkin

Terms Expire February 1, 1999

Lowell H. Lebermann, Jr.	.	.	.	.	Austin
Martha E. Smiley	.	.	.	.	Austin
Thomas O. Hicks	.	.	.	.	Dallas

Terms Expire February 1, 2001

Linnet F. Deily	.	.	.	.	Houston
Donald L. Evans	.	.	.	.	Midland
Tom Loeffler	.	.	.	.	San Antonio

SYSTEM ADMINISTRATION

Dr. William H. Cunningham, Chancellor
Dr. James P. Duncan, Executive Vice Chancellor for Academic Affairs
Charles B. Mullins, M.D., Executive Vice Chancellor for Health Affairs
R. D. Burck, Executive Vice Chancellor for Business Affairs
Thomas G. Ricks, Vice Chancellor for Asset Management
Ray Farabee, Vice Chancellor and General Counsel
Michael Millsap, Vice Chancellor for Governmental Relations
Shirley Bird Perry, Vice Chancellor for Development and External Relations
John A. Roan, Assistant Vice Chancellor for Finance

CHIEF ADMINISTRATIVE OFFICERS OF UNIVERSITY SYSTEM COMPONENT INSTITUTIONS

Dr. Robert E. Witt, President, The University of Texas at Arlington
Dr. Robert M. Berdahl, President, The University of Texas at Austin
Dr. Juliet V. Garcia, President, The University of Texas at Brownsville
Dr. Franklyn G. Jenifer, President, The University of Texas at Dallas
Dr. Diana S. Natalicio, President, The University of Texas at El Paso
Dr. Miguel A. Nevárez, President, The University of Texas-Pan American
Dr. Charles A. Sorber, President, The University of Texas of the Permian Basin
Dr. Samuel A. Kirkpatrick, President, The University of Texas at San Antonio
Dr. George F. Hamm, President, The University of Texas at Tyler
Kern Wildenthal, M.D., Ph.D., President, The University of Texas Southwestern Medical Center at Dallas
Thomas N. James, M.D., President, The University of Texas Medical Branch at Galveston
M. David Low, M.D., Ph.D., President, The University of Texas Health Science Center at Houston
John P. Howe III, M.D., President, The University of Texas Health Science Center at San Antonio
Charles A. LeMaistre, M.D., President, The University of Texas M.D. Anderson Cancer Center at Houston
George A. Hurst, M.D., Director, The University of Texas Health Center at Tyler

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Board to give any information, or to make any representations other than those contained in the Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Board or the Underwriters.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board, the System, the Permanent University Fund, the Interest of the System in the Available University Fund or other matters described herein since the date hereof.

The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

relating to

\$220,735,000*

**Board of Regents of The University of Texas System
Permanent University Fund Refunding Bonds, Series 1996**

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents (the "Board") of The University of Texas System of its bonds, entitled "Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1996" (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined have the same meanings assigned to such terms in the resolution (the "Resolution") adopted by the Board on January 5, 1996, authorizing the issuance of the Bonds.

The University of Texas System (the "System") was established pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State") as an agency of the State. The System presently consists of 15 State-supported general academic and health-related education and research institutions, including The University of Texas at Austin, all as listed on the inside cover of this Official Statement. Preliminary total enrollment for the System for the Fall 1995 semester is 144,408 students. The Board is the governing body of the System and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate.

This Official Statement contains summaries and descriptions of the plan of financing, the Resolution, the Bonds, the Board, the System and other related matters. All references to and descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which are available from the Board upon request at the Office of Finance, 201 W. 7th Street, Austin, Texas 78701-2981.

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds will be issued under the authority of Article VII, Section 18 of the Texas Constitution, Section 65.46, Texas Education Code, and Articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended, and pursuant to the terms of the Resolution and the action of the authorized representative of the Board signing the bond purchase agreement relating to the Bonds and establishing their final terms.

Purpose

The Bonds are being issued for the purpose of refunding a portion of the Board's Permanent University Fund Refunding Bonds, Series 1988 and Series 1991 and a portion of the Board's Permanent University Fund Bonds, Series 1992B (collectively, the "Refunded Bonds"), as more specifically described on the schedule hereto entitled "Schedule of Refunded Bonds," and to pay costs of issuance of the Bonds. The issuance of the Bonds will permit the Board to realize a present value debt service savings.

* Preliminary, subject to change.

The Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and redemption date of each such bond, from funds to be deposited with Texas Commerce Bank National Association (the "Escrow Agent"), pursuant to an Escrow Agreement (the "Escrow Agreement") between the Board and the Escrow Agent.

The Resolution provides that from the proceeds of the sale of the Bonds to the initial purchasers thereof, the Board will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Government Obligations").

Under the Escrow Agreement, effective as of the date of delivery of the Bonds, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. The Escrow Agreement provides that under certain conditions, including receipt of an opinion of Bond Counsel and a report of an independent Certified Public Accountant relating to the resulting sufficiency of the Escrow Fund, the Board may substitute other securities for the Government Obligations, but the new securities must be direct obligations of, or obligations which are unconditionally guaranteed by, the United States of America.

KPMG Peat Marwick LLP, independent certified public accountants, will verify at the time of delivery of the Bonds to the initial purchasers thereof that the Government Obligations will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Government Obligations will not be available to pay the Bonds. KPMG Peat Marwick LLP will also verify the actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not arbitrage bonds under Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). Such verifications will be based on information and assumptions supplied by the Board, and such verifications, information and assumptions will be relied upon by Bond Counsel in rendering its opinions described herein.

By the deposit of the Government Obligations and cash with the Escrow Agent pursuant to the Escrow Agreement, the Board will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolutions authorizing their issuance. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Bonds will no longer be payable from the "Interest of the System" in the "Available University Fund" (as such terms are defined herein) but will be payable solely from the principal of and interest on the Government Obligations and cash held for such purpose by the Escrow Agent and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the Board for any other purpose.

The Board has covenanted in the Escrow Agreement to make timely deposits in the Escrow Fund, from lawfully available funds, of additional funds in the amounts required to pay the principal of and interest on the Refunded Bonds should, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payments.

Parity Bonds

The Bonds will be issued on a parity with the Board's previously issued and outstanding Permanent University Fund Refunding Bonds, Series 1988, Series 1991 and Series 1992A and Permanent University Fund Bonds, Series 1992B (collectively, the "Outstanding PUF Bonds"), currently outstanding in the aggregate principal amount of \$546,315,000. Outstanding PUF Bonds in the aggregate principal amount of \$_____ will be refunded with proceeds of the Bonds. The Outstanding PUF Bonds, the Bonds and all additional bonds and notes issued on a parity therewith ("Additional Parity Bonds and Notes") are referred to collectively herein as the "PUF Bonds". The anticipated debt service requirements for the Bonds combined with the debt service requirements for the Outstanding PUF Bonds, including the portion of the Series 1988 Bonds, Series 1991 Bonds, Series 1992A Bonds and Series 1992B Bonds remaining outstanding after the issuance of the Bonds, are set forth in Appendix C.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$ _____
Accrued Interest on the Bonds	_____
Total Available Funds	\$ _____
Uses of Funds:	
Deposit to the Escrow Fund	\$ _____
Original Issue Discount	_____
Costs of Issuance, including Underwriters' Discount	_____
Deposit to Interest and Sinking Fund	_____
Total Application of Funds	\$ _____

DESCRIPTION OF THE BONDS

General

The Bonds will be issued only as fully registered bonds, without coupons, in any integral multiple of \$5,000 principal amount within a stated maturity, will be dated January 1, 1996, and will accrue interest from their dated date. The Bonds will bear interest at the per annum rates shown on the inside cover of this Official Statement. Interest on the Bonds is payable on January 1 and July 1 of each year, commencing July 1, 1996. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds mature on July 1 in the years and in the principal amounts set forth in the maturity schedule contained on the inside cover of this Official Statement.

The Bonds are initially issuable in book-entry only form. Initially, Cede & Co., the nominee of The Depository Trust Company ("DTC"), will be the registered owner and references herein to the Bondholders, holders, holders of the Bonds or registered owners of the Bonds shall mean Cede & Co. and not the beneficial owners of the Bonds. See "Description of the Bonds—Book-Entry Only System."

In the event that any date for payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which such banking institutions are authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

Redemption

Optional Redemption. The Bonds scheduled to mature on and after July 1, _____, are subject to redemption prior to maturity at the option of the Board on July 1, _____, or on any interest payment date thereafter, in whole or in part, in any integral multiple of \$5,000 (and, if in part, the particular Bonds or portions thereof to be redeemed shall be selected by the Board) at the redemption price of _____, plus accrued interest to the redemption date; provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for such Bonds, if

fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

Notice of Redemption. Not less than 30 days prior to a redemption date, a notice of redemption will be published once in a financial publication, journal or report of general circulation among securities dealers in the City of New York, New York, or in the State. Additional notice will be sent by the Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Registrar on the 45th day prior to such redemption date, to each registered securities depository and to any national information service that disseminates redemption notices. Failure to mail or receive such notice will not affect the proceedings for redemption and publication of notice of redemption in the manner set forth above shall be the only notice actually required as a prerequisite for redemption. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Registrar shall send a second notice of redemption to registered owners of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent Bonds in for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the date of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts of each certificate called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the names of the Paying Agent and Registrar and the address at which the Bonds may be redeemed including a contact person and telephone number.

Paying Agent and Registrar

The initial Paying Agent is named on the cover page hereof. The Board will serve as the initial Registrar for the Bonds. In the Resolution, the Board reserves the right to replace the Paying Agent or Registrar and covenants to maintain and provide a Paying Agent and Registrar at all times while the Bonds are outstanding. Any successor Paying Agent or Registrar is required by the Resolution to be a competent and legally qualified bank, trust company, financial institution or other agency. Upon any change in the Paying Agent or Registrar, the Board is required promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent or Registrar.

Book-Entry Only System

Book-Entry Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds bonds that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities. Direct Participants include securities brokers and dealers,

banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of the customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board and the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Board or the Underwriters. In reading this Official Statement it should be understood that while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Termination of Book-Entry Only System. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Board, the Paying Agent and the Registrar and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is not a successor securities depository), certificated Bonds are required to be delivered as described in the Resolution.

If the Board determines that (a) DTC is incapable of discharging its responsibilities or (b) the interests of the Beneficial Owners of the Bonds might be adversely affected if the book-entry only system is continued, the Board shall appoint a successor securities depository or deliver certificated Bonds, each as described in the Resolution.

Effect of Termination of Book-Entry Only System. In the event that the Book-Entry Only System is terminated by DTC or the Board, the following provisions will be applicable to the Bonds:

(a) *Payments.* The principal and redemption price of all Bonds is payable to the registered owners thereof at maturity or on the date of earlier redemption and only upon presentation and surrender of such Bonds at the designated office for payment of the Paying Agent. Interest on the Bonds will be paid by check mailed by the Paying Agent to the registered owners thereof as shown in the bond registration books of the Registrar as of the Record Date, which will be the 15th day of the month next preceding each interest payment date. Alternatively, upon the request and at the risk and expense of a registered owner, interest may be paid by another method acceptable to the Paying Agent.

(b) *Transfer, Exchange and Registration.* Bonds may be transferred and exchanged on the registration books of the Registrar only upon presentation and surrender thereof to the Registrar, together with proper written instruments of assignment in form and with guarantee of signatures satisfactory to the Registrar. Any such transfer or exchange will be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect thereto. A new Bond or Bonds will be delivered by the Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Registrar. Any Bond issued in exchange or transfer for another Bond may be in any integral multiple of \$5,000 principal amount for any one maturity and shall have the same aggregate unpaid principal amount, interest rate and maturity date as the Bond or Bonds surrendered for exchange or transfer. The Board, the Paying Agent and the Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond.

(c) *Limitation on Transfer.* Neither the Board nor the Registrar shall be required to assign, transfer, or exchange (i) any Bond or any portion thereof during a period beginning at the close of business on any Record Date, and ending at the opening of business on the next following principal or interest payment date or (ii) any Bond or any portion thereof that has been called for redemption within 45 days prior to the date fixed for redemption.

Amendment of Terms

The owners of PUF Bonds aggregating 51% of the aggregate principal amount of the then outstanding PUF Bonds have the right under the Resolution to approve any amendment to the Resolution or any other resolution authorizing the issuance of PUF Bonds that may be deemed necessary or desirable by the Board; provided, however, that the owners of all of the outstanding PUF Bonds must approve the amendment of the terms and conditions in any PUF Bond, the Resolution or such other resolutions so as to (a) make any change in the maturity of the outstanding PUF Bonds; (b)

reduce the rate of interest borne by any of the outstanding PUF Bonds; (c) reduce the amount of the principal payable on the outstanding PUF Bonds; (d) modify the terms of payment of principal of or interest on the outstanding PUF Bonds, or impose any conditions with respect to such payment; (e) affect the rights of the owners of less than all of the PUF Bonds then outstanding; or (f) change the minimum percentage of the principal amount of PUF Bonds necessary for consent to such amendment.

If at any time the Board shall desire to amend the Resolution or any such other resolution, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each paying agent/registrar for the PUF Bonds for inspection by all owners of PUF Bonds. Such publication is not required, however, if notice in writing is given to each owner of PUF Bonds.

Defeasance

The Resolution makes the following provisions for the defeasance of the Bonds:

(a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Resolution (a "Defeased Bond") except to the extent provided in (c) below, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment, or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent and the Registrar for the payment of their services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of the Interest of the System in the Available University Fund, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding under the Resolution. See "Security for the Bonds."

(b) Any moneys so deposited with or made available to the Paying Agent also may be invested at the written direction of the Board in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board, or deposited as directed in writing by the Board.

(c) Until all Defeased Bonds shall have become due and payable, the Paying Agent and the Registrar shall perform the services of Paying Agent and Registrar, respectively, for such Defeased Bonds the same as if they had not been defeased, and the Board shall make proper arrangements to provide and pay for such services as required by the Resolution.

(d) For purposes of these provisions, "Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

SECURITY FOR THE BONDS

Pledge Under the Resolution

PUF Bonds and the interest thereon are equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, as described below. Pursuant to the Resolution, the Board has reserved the right to issue Additional Parity Bonds and Notes on a parity with the Bonds and the Outstanding PUF Bonds. See "Security for the Bonds -- Additional Parity Bonds and Notes."

The Bonds do not constitute general obligations of the Board, the System, the State or any political subdivision of the State. The Board has no taxing power, and neither the credit nor the taxing power of the State or any political subdivision thereof is pledged as security for the Bonds.

Available University Fund

The Available University Fund is defined by the State Constitution to consist of all the dividend, interest and other income of the Permanent University Fund (less administrative expenses), including net income attributable to the surface of Permanent University Fund land. See "Permanent University Fund." As such dividend, interest and income are received, the State Comptroller of Public Accounts credits the receipts to the Available University Fund, and the money is deposited in the State Treasury for the purpose of investment.

Two-thirds of the amounts attributable to the Available University Fund (less administrative expenses of the Permanent University Fund) are constitutionally appropriated to the System to be used for constitutionally prescribed purposes. This two-thirds share is referred to herein and in the Resolution as the "Interest of the System" in the "Available University Fund." The remaining one-third of the amounts attributable to the Available University Fund, after deducting such expenses, is constitutionally appropriated to The Texas A&M University System.

Money credited to the Available University Fund is administered by the State Treasurer and, along with other funds of the State, is invested in accordance with State law. Earnings on that portion of the Available University Fund appropriated to the System accrue to and become a part of the Interest of the System in the Available University Fund.

General Covenants

The resolutions authorizing the Outstanding PUF Bonds and the Resolution require the State Comptroller of Public Accounts to maintain in the State Treasury an Interest and Sinking Fund for the PUF Bonds. Such resolutions collectively require the Board and the officers of the System to cause the State Comptroller of Public Accounts, on or before the date on which principal or interest is due on the PUF Bonds, to transfer from the Interest and Sinking Fund to the paying agents for such bonds amounts sufficient to pay such principal and interest.

The Board additionally covenants and agrees:

- (a) that while any PUF Bonds are outstanding and unpaid, the Board will maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law;
- (b) that the Board will restrict expenditures for administering the Permanent University Fund to a minimum consistent with prudent business judgment;

(c) that the Board will duly and punctually pay or cause to be paid the principal of every PUF Bond, and the interest thereon, from the sources, on the days, at the places and in the manner mentioned and provided in such obligations, according to the true intent and meaning thereof, and that it will duly cause to be redeemed prior to maturity all PUF Bonds that by their terms are required to be redeemed mandatorily prior to maturity, when and as so required, and that it will faithfully do and perform and at all times fully observe all covenants, undertakings and provisions contained in the Resolution and in the aforesaid obligations; and

(d) that, except for the PUF Bonds, and the interest thereon, the Board will not at any time create or allow to accrue or exist any lien or charge upon the Permanent University Fund or the Interest of the System in the Available University Fund, unless such lien or charge is made junior and subordinate in all respects to the liens, pledges, and covenants in connection with the PUF Bonds, but the right to issue junior and subordinate lien obligations payable from such Interest of the System in the Available University Fund is specifically reserved by the Board; and that the lien created by the Resolution will not be impaired in any manner as a result of any action or non-action on the part of the Board or officers of the System, and the Board will continuously preserve the Permanent University Fund and each and every part thereof.

General Tax Covenant

In the Resolution, the Board states its intention that the interest on the Bonds shall be excludable from gross income for purposes of federal income taxation pursuant to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Bonds to be includable in gross income, as defined in Section 61 of the Code, of the holders thereof for purposes of federal income taxation. In particular, the Board covenants and agrees in the Resolution to comply with each requirement of the Resolution relating to the treatment of interest on the Bonds for federal income tax purposes; provided, however, that the Board shall not be required to comply with any particular requirement if the Board has received an opinion of nationally recognized bond counsel acceptable to the Board that such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or if the Board has received an opinion of such counsel to the effect that compliance with some other requirement set forth in the Resolution will satisfy the applicable requirements of the Code, in which case compliance with such other requirement specified in such counsel's opinion shall constitute compliance with the corresponding requirement specified in the Resolution.

Additional Parity Bonds and Notes

The Board reserves the right, exercisable at any time and from time to time, to issue and deliver Additional Parity Bonds and Notes, in as many separate installments or series as deemed advisable by the Board, but only for constitutionally permitted (including refunding) purposes. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund, in the same manner and to the same extent as are the Bonds and the Outstanding PUF Bonds. It is further covenanted, however, that no installment or series of Additional Parity Bonds or Notes shall be issued and delivered unless the Chancellor, Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, the Director of Finance of the System or some other officer of the System designated by the Board executes:

(a) a certificate to the effect that for the Fiscal Year immediately preceding the date of said certificate, the amount of the Interest of the System in the Available University Fund was at least 1-1/2 times the average annual Principal, and Interest Requirements (as defined below) of the installment or series of Additional Parity Bonds or Notes then proposed to be issued and all then outstanding PUF Bonds that will be outstanding after the issuance and delivery of such proposed installment or series; and

(b) a certificate to the effect that the total principal amount of (i) all PUF Bonds and (ii) all other obligations of the Board that are secured by and payable from a lien on and pledge of the Interest of the System in the Available University Fund that will be outstanding after the issuance and delivery of the installment or series of Additional Parity Bonds or Notes then proposed to be issued will not exceed 20% of the cost value of investments and other assets of the Permanent University Fund (exclusive of the West Texas Land) at the time the proposed series or installment of Additional Parity Bonds or Notes is issued.

For purposes of the calculation required by (a) above and for other purposes of the Resolution, "Principal and Interest Requirements" means, with respect to any Fiscal Year of the System, the amounts of principal of and interest on all PUF Bonds scheduled to be paid in such Fiscal Year from the Interest of the System in the Available University Fund. If the rate of interest to be borne by any PUF Bonds is not fixed, but is variable or adjustable by any formula, agreement, or otherwise, and therefore cannot be calculated as actually being scheduled to be paid in a particular amount for any particular period, then for the purposes of the previous sentence such PUF Bonds shall be deemed to bear interest at all times to their maturity or due date at the lesser of (i) the maximum rate then permitted by law or (ii) the maximum rate specified in such PUF Bonds.

Future Financings

The Constitutional Provision provides that the System and its component institutions designated in the Constitutional Provision may not receive any funds from the general revenue of the State for acquiring land, with or without improvements, for constructing or equipping buildings or other permanent improvements, or for major repair and rehabilitation of buildings or other permanent improvements, except in case of fire or natural disaster (when the State Legislature may appropriate amounts to replace uninsured losses) or in cases of demonstrated need, as statutorily expressed in an appropriations act adopted by a two-thirds vote of both houses of the State Legislature. Accordingly, the needs of the System for capital funds through the issuance of bonds or notes are on-going. The Board expects to issue \$40,000,000 of Subordinate Lien Notes secured by the Interest of the System in the Available University Fund in February 1996, to fund capital projects of the System. The Board reserves the right to issue Additional Parity Bonds and Notes and other obligations should it elect to do so. See Table II, "Historical Availability and Outstanding Bonds and Notes."

Remedies

Any owner of any of the Outstanding PUF Bonds, the Bonds or Additional Parity Bonds or Notes shall, in the event of default in connection with any covenant contained in the Resolution or default in the payment of any amount due with respect to such obligations, have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the moneys pledged under the Resolution or for enforcing any such covenant. Except for the remedy of mandamus to enforce the Board's covenants and obligations under the Resolution, the Resolution does not establish other remedies or specifically enumerate the events of default with respect to the Bonds. The Resolution does not provide for a trustee to enforce the covenants and obligations of the Board. In no event will registered owners have the right to have the maturity of the Bonds accelerated as a remedy. The enforcement of the remedy of mandamus may be difficult and time consuming. No assurance can be given that a mandamus or other legal action to enforce a default under the Resolution would be successful.

The opinion of the Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws relating to creditors' rights generally. In addition, while the Board has covenanted to secure the Bonds by a first lien on the Interest of the System in the Available University Fund, Bond Counsel has not been requested to, and has not, rendered any opinion as to the priority status of the lien on the Interest of the System in the Available University Funds which secures the Bonds. See "Appendix D -- Form of Bond Counsel Opinion."

Subordinate Lien Notes and Residual Funds

Subordinate Lien Notes. In addition to the PUF Bonds, pursuant to the Constitutional Provision, the Board has authorized an interim financing program through the issuance of its Permanent University Fund Variable Rate Notes, Series A to be outstanding at any time in the maximum principal amount of \$250,000,000 (the "Subordinate Lien Notes"). Currently there are \$40,000,000 in Subordinate Lien Notes outstanding under this program and the Board expects to issue an additional \$40,000,000 of Subordinate Lien Notes in February 1996. The Subordinate Lien Notes are secured by a lien on the Interest of the System in the Available University Fund subordinate to the lien securing the PUF Bonds. The Board has entered into a Liquidity Agreement with the State Treasurer which provides that under certain conditions the State Treasurer will purchase up to \$100,000,000 of Subordinate Lien Notes through the period ending August 31, 1997 (which term may be extended by the State Treasurer in accordance with the Agreement). Such Agreement provides a source of liquidity to the Board with respect to the Subordinate Lien Notes, but does not constitute security or credit enhancement. See "Permanent University Fund -- Constitutional Debt Power, Debt Limitations."

Residual AUF. After the payment of annual debt service on the PUF Bonds and after payment of any other obligations secured by a lien on the Interest of the System in the Available University Fund, the Constitutional Provision appropriates the remaining amount attributable to the Interest of the System in the Available University Fund (the "Residual AUF") to the Board for the support and maintenance of The University of Texas at Austin and for the administration of the System.

In addition to the Bonds, the Outstanding PUF Bonds and the Subordinate Lien Notes, the Board has previously issued The University of Texas at Austin Building Revenue Refunding Bonds, Series 1986 (the "Building Revenue Bonds"), presently outstanding in the aggregate principal amount of \$22,600,000. The Building Revenue Bonds are secured by and payable from, among other revenues, the "Pledged Available Fund Surplus," which is that portion of the Residual AUF that is biennially appropriated by the State Legislature in a manner that will permit use thereof by the Board to pay debt service on the Building Revenue Bonds. The Building Revenue Bonds and any other obligations of the Board payable from and secured by the Pledged Available Fund Surplus are not subject to the 20% limitation described below under "Permanent University Fund -- Constitutional Debt Power, Debt Limitations."

PERMANENT UNIVERSITY FUND

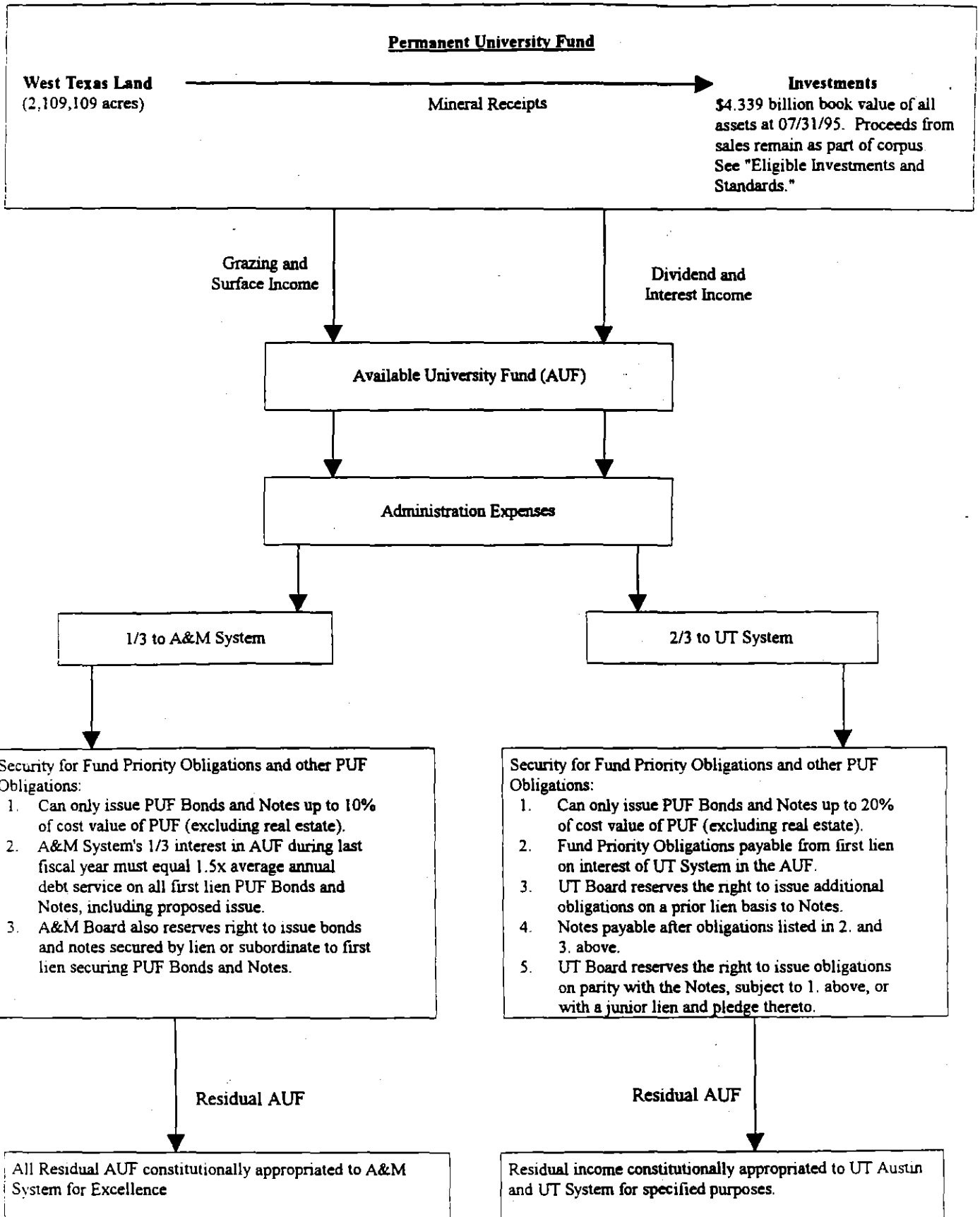
Introduction

The Permanent University Fund is a constitutional fund, created in the Texas Constitution of 1876. The assets and earnings of the Permanent University Fund are dedicated to the uses and purposes of the System and The Texas A&M University System. See "Security for the Bonds -- Available University Fund." A graphic summary and analysis of the relationship among the Permanent University Fund, the Available University Fund, the System and The Texas A&M University System follows. Said summary and analysis is qualified in its entirety by reference to the full text of this Official Statement and to the documents, laws and constitutional provisions referred to herein.

The Permanent University Fund is a public endowment contributing to the support of institutions of the System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and eligible institutions of The Texas A&M University System (other than Texas A&M University -- Corpus Christi, Texas A&M International University, Texas A&M University -- Kingsville and West Texas A&M University). The Constitution of 1876 established the Permanent University Fund through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of another one million acres. Today, the Permanent University Fund contains 2,109,109 acres located in 19 West Texas counties (the "West Texas Land").

As interpreted by the State Supreme Court and by the State Attorney General, the Permanent University Fund must be forever kept intact, and the proceeds from oil, gas, sulphur and water royalties, together with all gains on investments, all rentals on mineral leases, all lease bonuses and all amounts received from the sale of land must be retained as a part of the corpus of the Permanent University Fund.

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Income, Debt Service Requirements and Coverage

Table I below sets forth historical earnings of the Permanent University Fund that were deposited to the Available University Fund, together with the debt service requirements of the Outstanding PUF Bonds and the Subordinate Lien Notes and the coverage thereof. See "Security for the Bonds – Subordinate Lien Notes and Residual Funds."

Table I
Historical Available University Fund⁽¹⁾
(In Thousands)

<u>Fiscal Year</u> <u>Ending</u> <u>August 31</u>	<u>AUF (After)</u> <u>Administrative</u> <u>Expenses</u> ⁽²⁾	<u>Interest of the</u> <u>System in</u> <u>Available</u> <u>University Fund</u>	<u>Other</u> <u>Income</u>	<u>Total Income</u> <u>Available to</u> <u>Pay Debt</u> <u>Service</u>	<u>Total Debt Service</u> <u>Payable from the</u> <u>Available</u> <u>University Fund</u> ⁽³⁾	<u>Coverage</u> ⁽⁴⁾
1986	\$209,700	\$139,800	\$5,111	\$144,911	\$29,702	4.88x
1987	209,182	139,455	4,152	143,607	45,503	3.16x
1988	231,417	154,278	5,939	160,217	43,531	3.68x
1989	248,146	165,431	9,216	174,647	51,867	3.36x
1990	258,219	172,146	8,188	180,334	50,549	3.57x
1991	250,421	166,948	5,211	172,159	53,506	3.21x
1992	250,255	166,837	5,260	172,097	63,466	2.71x
1993	245,025	163,350	4,182	167,532	65,906	2.54x
1994	245,562	163,708	4,163	167,871	66,042	2.54x
1995	245,400	163,600	4,458	168,058	66,927	2.51x

- (1) The amounts stated for 1986 are audited amounts. Amounts for all other years are unaudited amounts reflected on the books of the System.
- (2) The expenses of administering the Permanent University Fund constitute a first claim on the income therefrom and are deducted prior to dividing the Available University Fund between the System and The Texas A&M University System. The Resolution contains a covenant restricting administrative expenses of the Permanent University Fund to a minimum consistent with prudent business judgment.
- (3) Includes Debt Service on the Board's Permanent University Fund Variable Rate Notes, Series A but does not include debt service payable from the Residual AUF. See "Security for the Bonds -- Subordinate Lien Notes and Residual Funds."
- (4) Represents Total Income Available to Pay Debt Service divided by Total Debt Service Payable from the Available University Fund.

Constitutional Debt Power, Debt Limitations

The discretion to direct the use of the Interest of the System in the Available University Fund, after administrative expenses, for constitutionally authorized purposes is vested in the Board. The discretion to direct the use of the one-third interest of The Texas A&M University System in the Available University Fund, after administrative expenses, is vested in the Board of Regents of The Texas A&M University System.

Article VII, Section 18(b) of the State Constitution (the "Constitutional Provision") authorizes the Board to issue bonds and notes, payable from all or any part of the Interest of the System in the Available University Fund for the purpose of (a) acquiring land, with or without permanent improvements, (b) constructing and equipping buildings or other

permanent improvements, (c) making major repair and rehabilitation of buildings and other permanent improvements, (d) acquiring capital equipment, library books and library materials, and (e) refunding bonds or notes issued under such Constitutional Provision or prior law at or for System administration and certain component institutions of the System. The pledge and security interest made and granted in the Resolution is accomplished pursuant to that Constitutional Provision.

Prior to November 1984, the State Constitution limited the issuance of bonds and notes secured by an interest in the Available University Fund to a maximum of 20% of the book value of the Permanent University Fund (6.67% issued by The Texas A&M University System and 13.33% issued by the System). Since November 1984, the Constitutional Provision has limited the aggregate amount of bonds and notes secured by the Interest of the System in the Available University Fund that may be issued by the Board to amounts not exceeding, at the time of issuance, 20% of the cost value of investments and other assets of the Permanent University Fund, exclusive of the West Texas Land (as defined below). As of November 30, 1995, the unaudited cost value of the Permanent University Fund, exclusive of West Texas Land, was \$4,438,500,991 and outstanding bonds and notes secured by the Interest of the System in the Available University Fund totaled \$586,315,000. Accordingly, using the November 30, 1995, valuation (without taking into account the issuance of the Bonds and the refunding of the Refunded Bonds), the Board will be authorized to issue an additional \$301,385,198 of bonds or notes secured by the Interest of the System in the Available University Fund. For the purpose of making these calculations, "cost value" and "book value" are treated as equivalent terms.

Table II shows the constitutional debt limits of the Permanent University Fund for each Fiscal Year 1986 through 1995 and the amount of outstanding bonds and notes secured by the respective interests in the Available University Fund for each of such years for both the System and The Texas A&M University System.

Table II
Historical Availability and Outstanding Bonds and Notes
(In Thousands)

Fiscal Year Ending August 31	Book Value of Fund	The University of Texas System		Texas A&M University System	
		Constitutional Debt Limit	Outstanding	Constitutional Debt Limit	Outstanding
1986	\$2,605,527	\$521,105	\$440,045	\$260,553	\$198,065
1987	2,919,540	583,908	427,420	291,954	220,690
1988	3,082,119	616,438	442,100	308,218	224,180
1989	3,294,392	658,878	477,205	329,439	248,050
1990	3,435,080	687,016	542,155	343,508	255,685
1991	3,526,481	705,296	551,465	352,648	308,300
1992	3,656,917	731,383	626,840	365,698	288,427
1993	4,044,284	808,857	602,630	404,428	324,759
1994	4,213,209	842,642	615,110	421,321	355,319
1995	4,375,824	875,165	586,315	437,582	344,659

Investment Responsibility

The fiduciary responsibility for managing and investing the Permanent University Fund is constitutionally assigned to the Board. The Board currently employs an investment and administrative staff as well as unaffiliated investment managers for the purpose of optimizing investment performance while complying with legal limitations and policy

guidelines. The Board for Lease of University Lands, composed of representatives of the System, The Texas A&M University System and the State Land Commissioner, is responsible for the approval of oil, gas and other mineral leases.

The principal administrative officer responsible for the management of the Permanent University Fund is the Vice Chancellor for Asset Management. He is supported by a staff of 50 employees, consisting of investment officers, securities analysts, accountants, and other personnel. His duties and powers include the power to make and execute daily investment decisions consistent with legal limitations and policy guidelines. Mr. Thomas G. Ricks serves as the Vice Chancellor for Asset Management, a position he has held since January 1, 1992.

The Board currently appoints an Investment Advisory Committee of up to six citizen members whose particular qualifications and experience qualify them, in the opinion of the Board, to advise the Board and the administration of the System with respect to investment policy, planning and performance evaluations. In addition, the standing Asset Management Committee of the Board consists of such members of the Board as are appointed thereto by the Chairman of the Board. The Chairman of the Board serves ex officio as a member of the Asset Management Committee. In the event that an investment management structure is implemented of the kind described below under "Permanent University Fund – Proposed Changes in Management Structure" below is implemented, it is expected that the Investment Advisory Committee and the Asset Management Committee will be dissolved.

Investment Management Firms

The Board may hire unaffiliated investment managers from time to time in order to provide the Permanent University Fund with increased diversity through their unique style and approach to investing as well as to improve the Permanent University Fund's return and volatility. The Board carefully screens and evaluates external managers on the basis of investment philosophy and historical performance. Investment managers are monitored periodically by the Board for performance and adherence to investment discipline. The Board reviews the composition of managers from time to time and may add or terminate managers in order to optimize portfolio returns. As of November 30, 1995, external managers managed approximately 10.5% of the investment assets of the Permanent University Fund on an active, fully discretionary basis, and 26% on a passive, indexed basis.

Proposed Changes in Investment Governance and Management Structure

As part of its long term planning process, the Board during Fiscal Year 1995 engaged a nationally recognized investment management firm to evaluate the ability of its investment governance and management structure to compete in an increasingly challenging investment environment. Based on this evaluation, the Asset Management Committee recommended that the Board adopt a not for profit investment affiliate organizational model which would preserve ultimate regental control of investments for fiduciary purposes, create a separate investment board with a high level of investment expertise, emphasize policy deliberation at the board level, streamline decision making by shortening reporting lines, and focusing accountability for investment results. Adoption of the investment affiliate model was also recommended as a means to increase the role of investment professionals in the oversight process and to better position the Board to invest in global markets.

Statutory authority for the Board to adopt the recommended organizational model was provided in May, 1995 with the passage of Tex. H.B. 1877 ("H.B. 1877") by the Texas Legislature. H.B. 1877 amended Section 66.08 of the Texas Education Code and authorized the Board to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board subject to certain conditions: (a) that the corporation not engage in any business other than investing funds designated by the Board under the contract, (b) that the Board approve (i) the articles of incorporation and by-laws of the corporation, (ii) the investment policies of the corporation, (iii) the audit and ethics committee of the corporation, and (iv) the code of ethics of the corporation, (c) that the Board appoint all members of the corporation's board of directors which shall consist of three members of the Board, the Chancellor of the System, a member appointed by the Board from a list of candidates submitted by the board of regents of The Texas A&M University

System and four independent directors, (d) that the Board provide for an annual financial audit of the Permanent University Fund, and (e) that the corporation file quarterly reports with the Board concerning matters required by the Board.

It is expected that the Board, in February 1996, will formally consider a resolution to contract for the investment management of all funds under Board control and management with The University of Texas Investment Management Company ("UTIMCO"), a 501(c)(3) corporation organized under the laws of the State of Texas. In making such action, the Board will dissolve the Investment Advisory Committee, the Asset Management Committee and the Office of Asset Management and transfer existing investment management and operating staff to UTIMCO. The Board will pay UTIMCO an annual fee for UTIMCO's investment management services.

Eligible Investments and Investment Policies

Pursuant to an amendment to Article VII of the State Constitution which was approved by the voters of the State on November 8, 1988, the Board is authorized, subject to procedures and restrictions it establishes, to invest the Permanent University Fund in any kind of investments and in amounts it considers appropriate; provided that it adheres to the prudent person investment standard, which requires that, in making each and all investments, the Board shall exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.

In addition to the constitutional standard for investment discussed above, the Board's investment policies currently provide, among other investment restrictions, that (a) corporate bonds and preferred stocks must be rated "Baa3" by Moody's Investors Service or "BBB-" by Standard & Poor's Ratings Group or higher, or if not rated, must in the opinion of the Board's investment staff be of at least equal quality to such ratings, (b) commercial paper must be rated in the top two quality classes by Moody's Investors Service or Standard & Poor's Ratings Group, (c) less than five percent of the voting securities of a corporation may be owned, unless additional ownership is specifically authorized by the Vice Chancellor for Asset Management, (d) no securities may be purchased on margin or leverage, (e) no transactions in short sales will be made and (f) transactions in financial futures and options may only occur as part of a hedging program as authorized.

The Office of Asset Management is expected to propose a revised investment policy for the Permanent University Fund to the Board in February 1996. The revised policy explicitly recognizes the constitutional segregation of total investment return between income return, all of which must be distributed to the Available University Fund, and price return (realized and unrealized gains) which must be retained as Permanent University Fund corpus. The investment policy also recognizes the perpetual nature of the Permanent University Fund and stipulates two long term investment objectives (i) to increase distributable investment income over time at a minimum rate equal to inflation and (ii) to increase distributable income over the preceding year at a minimum rate equal to the rate of income growth produced by the capital markets. The policy also stipulates a rebalancing of the Permanent University Fund's long term target asset allocations to increase diversification and exposure to equities and alternative assets.

The proposed policy establishes allocation ranges for each asset class, with actual allocations to be adjusted by the chief investment officer (within the approved ranges) in response to changes in his or her outlook for investments. The following table sets forth the proposed investment targets and ranges, by asset:

<u>Asset Class:</u>	<u>Range</u>	<u>Target</u>
Cash and Cash Equivalents	0%-5%	0.0%
Fixed Income (U.S. Domestic)	20%-40%	
Equities		30.0%
U.S. Common Stocks:		
Medium/Large Capitalization Stocks	35%-45%	40.0%
Small Capitalization Stocks	5%-15%	10.0%
International Common Stocks:		
Established Markets	<u>7.5%-12.5%</u>	<u>10.0%</u>
Total Equities	50%-70%	60.0%
Alternative Assets:		
Mezzanine	2.0%-3.0%	2.5%
Buy-Outs/Special Equities	5.0%-8.0%	6.5%
Venture Capital	<u>0.5%-1.5%</u>	<u>1.0%</u>
Total Alternative Assets	7.5%-12.5%	10.0%
Total Assets		100.0%

Currently, asset allocation within the Permanent University Fund is the responsibility of the Asset Management Committee, and asset allocation targets are subject to change from time to time based on the economic and securities markets outlooks, as well as income requirements. The asset classes within the Permanent University Fund, the long term targeted allocation percentages for each asset class and the actual allocation percentages as of November 30, 1995, are set forth below.

<u>Asset Class</u>	<u>Long Term Target</u>	<u>Percentage Allocation (as of November 30, 1995)</u>
Cash & cash equivalents	0%	1%
Fixed income securities	45%	49%
Equity securities	45%	46%
Alternative assets	<u>10%</u>	<u>4%</u>
Total Assets	100%	100%

The proposed change in the asset allocation is expected to increase the amount of income distributed to the Available University Fund over the long term, although the implementation of the new asset mix is expected to be gradual, so that distributable income is not expected to increase in significant amounts for several years.

Investment Objectives

The current investment policy of the Board provides three primary objectives in managing the Permanent University Fund: (1) the generation of more than sufficient income to service interest and principal payments of bonds and notes secured by the Interest of the System in the Available University Fund as well as to provide a dependable and growing stream of income for the support and maintenance of The University of Texas at Austin and System administration, (2) to cause the total value of the Permanent University Fund to appreciate over time and thereby to insure preservation of the Permanent University Fund's purchasing power and (3) diversification at all times to provide reasonable assurance that investment in a single security, class of securities, or industry will not have an excessive impact on the Permanent University Fund. See "Permanent University Fund--Eligible Investments and Investment Policies" for a discussion of a proposed change in the Board's investment policies which include two proposed new investment objectives in the management of the Permanent University Fund.

The Resolution requires the Board to maintain and invest and keep invested the Permanent University Fund in a prudent manner and as required by law. To the best knowledge and belief of the Board, the Board's investments, practices and policies are in full compliance with the requirements of the State Constitution and the Resolution.

Table III shows the annual growth in the book value of the Permanent University Fund through Fiscal Year 1995. Proceeds from the sale of investment securities contained in such Fund, including capital gains, are constitutionally required to remain as part of the corpus of such Fund.

Table III
Annual Permanent University Fund Growth
(In Millions)

Fiscal Year Ending <u>August 31</u>	<u>Beginning Balance</u>	<u>West Texas Lands Receipts</u>	<u>Net Realized Gains⁽¹⁾</u>	<u>Total Additions</u>	<u>Ending Balance⁽²⁾</u>
1986	\$2,316.9	\$117.2	\$171.4	\$288.6	\$2,605.5
1987	2,605.5	81.2	232.8	314.0	2,919.5
1988	2,919.5	80.3	82.3	162.6	3,082.1
1989	3,082.1	71.8	140.5	212.3	3,294.4
1990	3,294.4	78.5	62.2	140.7	3,435.1
1991	3,435.1	89.3	2.1	91.4	3,526.5
1992	3,526.5	64.6	65.8	130.4	3,656.9
1993	3,656.9	69.4	318.0	387.4	4,044.3
1994	4,044.3	59.6	09.3	168.9	4,213.2
1995	4,213.2	57.1	105.5	162.6	4,375.8

(1) Net of realized losses on sale of Permanent University Fund securities.

(2) Excludes nominal value of West Texas Land of \$10,027,384.

Table IV shows a summary comparison of the assets, excluding the West Texas Land, of the Permanent University Fund for Fiscal Years ended August 31, 1994 and 1995. Though market values are shown, assets are valued at their book value in the financial records of the System. The 2,109,109 acres of West Texas Land owned by the Permanent University Fund are carried on the books at the nominal book value of \$10,027,384.

Table IV

**PERMANENT UNIVERSITY FUND
COMPARISON SUMMARY OF ASSETS
AUGUST 31, 1994**

	BOOK VALUE	YIELD	MARKET VALUE	YIELD
FIXED INCOME SECURITIES				
DEBT SECURITIES				
U. S. Govt. Obligations				
Treasury Bonds	\$375,912,132.30	8.80%	\$402,897,062.50	6.76%
Various Guaranteed Bonds	46,248,495.88	9.21%	48,999,450.66	8.25%
TOTAL - U. S. Govt. Obligations	422,160,628.18	8.85%	451,896,513.16	6.92%
U. S. Govt. Agencies (Non-Gtd.)				
Foreign Governments	89,341,231.75	7.62%	85,546,975.00	8.13%
Municipal and County Bonds	58,693,831.82	7.57%	56,017,783.75	8.07%
Corporate Bonds	1,220,721,223.68	8.05%	1,206,839,958.80	8.02%
TOTAL - DEBT SECURITIES	2,176,895,133.79	8.27%	2,194,184,163.07	7.88%
PREFERRED STOCKS				
TOTAL - FIXED INCOME SECURITIES	6,337,028.51	12.79%	9,553,250.00	8.38%
TOTAL - FIXED INCOME SECURITIES	2,183,232,162.30	8.30%	2,203,737,413.07	7.87%
EQUITY SECURITIES				
Convertible Debentures	783,627.50	8.35%	733,556.25	8.70%
Convertible Preferred Stocks	1,408,030.00	7.88%	1,388,875.00	7.99%
Common Stocks	684,562,508.67	2.98%	796,403,313.92	2.67%
Private Investments (1)	116,162,996.40	0.00%	131,474,394.53	0.00%
Wells Fargo Equity Units	458,819,764.97	2.87%	490,379,206.78	2.65%
Wells Fargo Mid Cap Units	329,605,221.55	2.42%	342,183,387.40	1.92%
Wells Fargo Int'l Units	144,450,252.64	2.44%	165,626,695.23	2.13%
TOTAL - EQUITY SECURITIES	1,735,772,401.73	2.61%	1,928,189,429.11	2.29%
CASH AND CASH EQUIVALENTS				
U. S. Government (Dir & Gtd)	58,026,658.98	9.14%	59,068,379.66	5.22%
Corporate Bonds	29,974,700.26	10.74%	30,771,803.07	6.53%
State Street Money Market	2,889,538.20	4.29%	2,889,538.20	4.29%
Wells Fargo Money Market Funds	63,831,072.57	4.81%	63,831,072.57	4.81%
Cash (Interest Bearing)	144,792,910.34	4.74%	144,792,910.34	4.74%
TOTAL - CASH & CASH EQUIVALENTS	299,514,880.35	6.20%	301,353,703.84	5.03%
TOTAL INVESTMENTS OF SECURITIES - PRINCIPAL	4,218,519,444.38	5.81%	4,433,280,546.02	5.24%
TRADE RECEIVABLES	11,802,425.92		11,802,425.92	
TRADE PAYABLES	(17,113,216.64)		(17,113,216.64)	
VALUE OF FUND - PRINCIPAL	\$ 4,213,208,653.66		\$ 4,427,969,755.30	

Table IV
Continued

PERMANENT UNIVERSITY FUND
COMPARISON SUMMARY OF ASSETS
AUGUST 31, 1995

	BOOK VALUE	YIELD	MARKET VALUE	YIELD
FIXED INCOME SECURITIES				
DEBT SECURITIES				
U. S. Govt. Obligations				
Treasury Bonds	\$ 347,576,994.19	8.81%	\$ 383,420,117.00	6.20%
Various Guaranteed Bonds	49,846,298.36	8.87%	52,927,930.08	7.82%
TOTAL - U. S. Govt. Obligations	397,423,292.55	8.81%	436,348,047.08	6.39%
U. S. Govt. Agencies (Non-Gtd.)	353,890,585.37	8.80%	375,968,879.01	7.86%
Foreign Governments	95,394,477.62	7.65%	99,372,258.00	7.20%
Municipal and County Bonds	76,857,392.98	7.68%	77,527,300.90	7.68%
Corporate Bonds	1,288,290,023.83	7.97%	1,350,206,564.56	7.17%
TOTAL - DEBT SECURITIES	2,211,855,772.35	8.20%	2,339,423,049.55	7.15%
PREFERRED STOCKS	6,083,491.17	12.91%	9,370,500.00	8.29%
TOTAL - FIXED INCOME SECURITIES	2,217,939,263.52	8.21%	2,348,793,549.55	7.16%
EQUITY SECURITIES				
Convertible Debentures				
Convertible Preferred Stocks	632,170.00	4.65%	698,250.00	4.21%
Common Stocks	690,381,408.51	3.17%	887,614,922.26	2.47%
Private Investments (1)	138,953,856.04	0.00%	198,272,173.45	0.00%
Wells Fargo Equity Units	461,952,319.96	3.07%	579,372,660.41	2.31%
Wells Fargo Mid Cap Units	357,219,011.19	2.09%	421,917,081.68	1.93%
Wells Fargo Int'l Units	204,163,885.93	2.37%	216,404,527.27	2.24%
TOTAL - EQUITY SECURITIES	1,853,302,651.63	2.61%	2,304,279,615.07	2.10%
CASH AND CASH EQUIVALENTS				
U. S. Government (Dir & Non-Gtd)	46,188,950.64	8.57%	46,677,285.00	5.78%
Corporate Bonds	21,947,147.87	9.51%	22,324,339.02	6.77%
Commercial Paper	150,000,000.00	5.77%	150,000,000.00	5.77%
State Street Money Market	2,975,125.94	5.60%	2,975,125.94	5.60%
Wells Fargo Money Market Funds	1,430,470.94	5.96%	1,430,470.94	5.96%
Cash (Interest Bearing)	80,459,460.54	5.28%	80,459,460.54	5.28%
TOTAL - CASH & CASH EQUIVALENTS	303,001,155.93	6.34%	303,866,681.44	5.72%
TOTAL INVESTMENTS OF SECURITIES - PRINCIPAL	4,374,243,071.08	5.71%	4,956,939,846.06	4.73%
TRADE RECEIVABLES	5,431,245.94		5,431,245.94	
TRADE PAYABLES	(3,850,013.07)		(3,850,013.07)	
VALUE OF FUND - PRINCIPAL	\$ 4,375,824,303.95		\$ 4,958,521,078.93	

Table V shows a summary of the income from investments in the Permanent University Fund for the Fiscal Year ended August 31, 1995, which is deposited in the Available University Fund.

TABLE V
Permanent University Fund
Summary of Income
Year Ended August 31, 1995

	<u>Cash</u>	<u>Accrued</u>
Debt Securities		
U. S. Govt. Obligations (Direct)	\$ 37,368,792	\$ 36,362,656
U. S. Govt. Obligations (Gtd)	4,163,766	4,716,791
U. S. Govt. Agencies (Non-Gtd)	32,280,615	31,848,579
Foreign Government Obligations	7,205,515	5,093,731
Municipal and County Bonds	4,991,564	7,261,575
Corporate Bonds	<u>101,968,444</u>	<u>103,594,343</u>
Total Debt Securities	187,978,696	188,877,675
Preferred Stocks	790,671	790,671
Equity Securities		
Convertible Debentures	64,083	64,083
Convertible Preferred Stocks	32,450	32,450
Common Stocks & Other Equities	24,567,645	24,861,078
Index Funds	<u>25,801,291</u>	<u>25,905,847</u>
Total Equity Securities	50,465,469	50,863,458
Cash and Cash Equivalents		
Cash Held at State Treasury	7,730,181	7,423,281
Money Markets	620,458	528,084
Commercial Paper	<u>1,637,107</u>	<u>2,192,143</u>
Total Cash and Cash Equivalents	9,987,746	10,143,508
Other Investment Income		
Securities Lending	267,737	267,737
Director's Fees	<u>43,800</u>	<u>43,800</u>
Total Other Investment Income	<u>311,537</u>	<u>311,537</u>
Total Investment Income	<u>249,534,119</u>	<u>250,986,849</u>
Surface and Other Income		
Grazing Leases	2,016,868	2,016,868
Land Easements	1,434,788	1,434,788
Exploration & Prospecting Permits	8,800	8,800
Miscellaneous	<u>478,525</u>	<u>478,525</u>
Total Surface and Other Income	<u>3,938,981</u>	<u>3,938,981</u>
Total Income	<u>\$253,473,100</u>	<u>\$254,925,830</u>

Financial Information

Beginning with the Fiscal Year ended August 31, 1987, the State began issuing audited financial statements, prepared in accordance with generally accepted accounting principles, for the State government as a whole. The statements are prepared by the State Comptroller of Public Accounts and are audited by the State Auditor's office. The State Auditor expresses an opinion on the financial statements of the State but does not express an opinion on the financial statements of individual component units, including those of the System and the Permanent University Fund.

The scope of the State Auditor's audit includes tests for compliance with the covenants of bond issues of the State or its component agencies and institutions. In addition, supplementary schedules are included in the State financial statements, providing for each bond issue information related to pledged revenues and expenditures, coverage of debt service requirements, restricted account balances and/or other relevant information which may feasibly be incorporated. The State Auditor expresses an opinion on such schedules in relation to the basic financial statements taken as a whole. Any material compliance exceptions related to bond covenants are disclosed in the notes to the financial statements and all compliance exceptions related to bond covenants are addressed in the overall management letter for the State audit.

In accordance with H.B. 1877, for the Fiscal Year ended August 31, 1995, the Board has commissioned an audit of the summary of investment income (on a cash basis) and a summary of investments (on a generally accepted accounting principle basis) of the Permanent University Fund. As noted in the audit, the preparation of this audit of investment income on a cash basis is a comprehensive basis of accounting other than generally accepted accounting principles. The audit is included in Appendix A hereto. The Board is not required by H.B. 1877 or other State law to have an independent audit prepared with respect to the Permanent University Fund in any Fiscal Year subsequent to 1995. Reference is made to the heading "Continuing Disclosure of Information" for a discussion of the Board's undertaking to provide updated financial and operating data to certain information vendors on an annual basis.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Bond Counsel, whose approving opinion will be in the form attached hereto as Appendix D. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted, and such firm has not assumed any responsibility with respect thereto or undertaken to verify any of the information contained herein, except that, in the capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds and the Resolution contained under the captions "Introduction," "Plan of Financing," "Description of the Bonds" (other than the information under the caption "Book-Entry Only System"), "Security for the Bonds," "Permanent University Fund -- Introduction," "Legal Matters," "Tax Matters," "Legal Investments in Texas" and "Continuing Disclosure of Information" (except for financial and statistical information contained under any such caption) in this Official Statement, and such firm is of the opinion that the information relating to the Bonds and the Resolution contained under such captions is a fair and accurate summary of the information purported to be shown therein. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P. The fee of Underwriters' Counsel is contingent upon the delivery of the Bonds.

ABSENCE OF LITIGATION

Neither the Board nor the System is a party to any litigation or other proceeding pending or, to the knowledge of the General Counsel of the System, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to either such party, would have a material adverse effect on the financial condition of the System, the Permanent University Fund or the Interest of the System in the Available University Fund. No

any nature has been filed, or to the knowledge of the General Counsel of the System threatened, which seeks to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds.

TAX MATTERS

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) certain "original issue discount" on the Bonds maturing on July 1 in the years _____ through and including _____ (the "Original Issue Discount Bonds") is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Matters--Tax Accounting Treatment of Original Issue Discount Bonds" and (iii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excluded from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States, and requirement that the issuer file an information report with the Internal Revenue Service. The Board has covenanted in the Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Board and the initial purchasers of the Bonds with respect to matters solely within the knowledge of the Board and the initial purchasers of the Bonds, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report of KPMG Peat Marwick LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the Board should fail to comply with the covenants in the Resolution or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative maximum tax on the "alternative minimum taxable income" of a corporation, if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. The "Superfund Revenue Act of 1986" also imposes an additional 0.12% "environmental tax" on the alternative minimum taxable income of a corporation in excess of \$2,000,000. Generally, for taxable years beginning after 1989, the alternative minimum taxable income of a corporation (other than any "S" corporation, regulated investment company, REIT or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceed its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Except as stated above, and as stated below in "Tax Matters--Tax Accounting Treatment of Original Issue Discount Bonds," Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual receipts of Social Security or Railroad Retirement benefits, taxpayer who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U. S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for the Bonds which mature on _____ (the "Original Issue Discount Bonds") is less than the stated redemption price thereof. Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portions of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "Tax Matters—Tax Exemption" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bonds at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the initial purchaser, that (a) the initial purchaser has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transaction for a price (and with no other consideration being included) not more than the initial offering prices thereof. Neither the Board nor the Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the initial purchaser, upon which Bond Counsel will rely in rendering the foregoing opinion, are based on records or facts the initial purchaser had no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semi-annual anniversary dates of the date of the Bonds and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bonds for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual

period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original issue Discount Bonds.

LEGAL INVESTMENTS IN TEXAS

Pursuant to Article 717k, Texas Revised Civil Statutes Annotated, as amended, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the interest and sinking funds and other public funds of counties, municipal corporations, taxing districts and other political subdivisions or agencies or instrumentalities of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, provides that any "local government" and "state agency" (as those are defined in the Investment Act) may invest in the Bonds, provided the Bonds have received a rating of not less than "A" from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Bonds will be subject to delivery by KPMG Peat Marwick LLP, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to (i) the adequacy of the maturing principal amounts of the Government Obligations held in the Escrow Fund, together with a portion of the interest income thereon and uninvested cash, if any, to pay, when due, the principal of and interest on the Refunded Bonds and (ii) the actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not arbitrage bonds under Section 148 of the Code. Such verification of accuracy of such mathematical computations will be based upon information and assumptions supplied by the Board and such verification, information and assumptions will be relied on by Bond Counsel in rendering its opinions described herein.

RATINGS

Ratings on the Bonds have been received from Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Group ("S & P") and Fitch Investors Service ("Fitch"). Moody's has assigned a rating of __ to the Bonds. S & P and Fitch have each assigned ratings of __ to the Bonds. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The Board will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the Permanent University Fund and the Interest of the System in the Available University Fund of the general type included in this Official Statement under the heading "Permanent University Fund" and in Appendices A, B and C. The Board will update and provide this information within six months after the end of each Fiscal Year ending in or after 1996. The Board will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include annual financial statements with respect to the Permanent University Fund provided on a cash basis, or such other basis as the Board may be required to employ from time to time pursuant to state law or regulation, and will not be audited unless the Board subsequently commissions an audit of such financial statements.

The State's current Fiscal Year end is August 31. Accordingly, the Board must provide updated information by the last day of February in each year, unless the State changes its Fiscal Year. If the State changes its Fiscal Year, the Board will notify each NRMSIR and any SID of the change.

Material Event Notices

The Board will also provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Resolution make any provision for debt service reserves, credit enhancement or liquidity enhancement.) In addition, the Board will provide timely notice of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Board will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that it will accept that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Board has agreed to update information and to provide notices of material events only as described above. The Board has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

This continuing disclosure agreement may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board or the Permanent University Fund, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of 51% in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Board (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. The Board may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Board has not failed to comply with its previous continuing disclosure agreement in accordance with SEC Rule 15c2-12.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the Board at an underwriting discount of \$_____ from the initial public offering prices therefor set forth on the inside of the cover page of this Official Statement. The Underwriters will be jointly and severally obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board's records, financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the constitutional provisions, statutes and documents contained in this Official Statement are made subject to all of the provisions of such constitutional provisions, statutes and documents. The summaries do not purport to be complete statements of such provisions and reference is made to such provisions and documents for further information. Reference is made to original documents in all respects.

The Resolution authorizing the issuance of the Bonds also approved the form and content of this Official Statement and authorized its further use in the reoffering of the Bonds by the Underwriters.

/s/
Assistant Vice Chancellor for Finance,
The University of Texas System

SCHEDULE OF REFUNDED BONDS

Board of Regents of the University of Texas System Permanent University Fund Refunding Bonds, Series 1988

Dated Date Maturity Interest Rate Principal Amount Amount Refunded Call Date and Price

Board of Regents of the University of Texas System Permanent University Fund Refunding Bonds, Series 1991

Dated Date Maturity Interest Rate Principal Amount Amount Refunded Call Date and Price

Board of Regents of the University of Texas System Permanent University Fund Bonds, Series 1992B

Dated Date Maturity Interest Rate Principal Amount Amount Refunded Call Date and Price

APPENDIX A

AUDIT OF THE PERMANENT UNIVERSITY FUND

Report of Independent Auditors

**Board of Regents
The University of Texas System Permanent
University Fund**

We have audited the accompanying Summary of Investments as of August 31, 1995, and the Summary of Investment Income (Cash Basis) of the Permanent University Fund for the year then ended. These summaries are the responsibility of management. Our responsibility is to express an opinion on these summaries based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Summary of Investments and Summary of Investment Income (Cash Basis) are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As described in Note 1, the Summary of Investment Income (Cash Basis) referred to above has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also as described in Note 1, both summaries referred to above have been prepared for the purpose of complying with Section 4 of Texas House Bill 1877 which requires a financial audit of the Fund. These summaries are not intended to be a complete presentation of the Permanent University Fund's financial position or results of operations.

In our opinion, the Summary of Investments referred to above presents fairly, in all material respects, investments of the Permanent University Fund at August 31, 1995, in conformity with generally accepted accounting principles.

Also in our opinion, the Summary of Investment Income (Cash Basis) referred to above presents fairly, in all material respects, the investment income of the Permanent University Fund for the year ended August 31, 1995, on the basis of accounting described in Note 1.

Our audit of the Summary of Investments was conducted for the purpose of forming an opinion on such summary taken as a whole. The fair value information appearing in conjunction with the book value information on the summary is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audit of the Summary of Investments and, in our opinion, is fairly stated in all material respects in relation to the summary taken as a whole.



This report is intended solely for the use of the Board of Regents of the University of Texas System Permanent University Fund and for filing with regulatory agencies. This restriction is not intended to limit the distribution of this report, which upon filing is a matter of public record.

October 20, 1995

Ernst + Young LLP

Permanent University Fund

Summary of Investments

August 31, 1995

	Book Value	Market Value
	<i>(In Thousands)</i>	
Long-term securities		
Debt securities		
U.S. government obligations:		
Direct – treasuries	\$ 347,577	\$ 383,420
Guaranteed:		
Mortgage-backed	21,707	23,077
Other	28,140	29,851
Total U.S. government obligations	<u>397,424</u>	<u>436,348</u>
U.S. government agencies (non-guaranteed):		
Mortgage-backed	318,358	334,662
Other	35,533	41,307
Total U.S. government agencies (non-guaranteed)	<u>353,891</u>	<u>375,969</u>
Foreign government obligations	95,394	99,372
Municipal and county bonds	76,857	77,527
Corporate bonds	1,288,290	1,350,207
Total debt securities	<u>2,211,856</u>	<u>2,339,423</u>
Preferred stocks	6,083	9,371
Equity securities		
Convertible preferred stocks	632	698
Common stocks and other equities	829,336	1,085,887
Index funds	1,023,335	1,217,694
Total equity securities	<u>1,853,303</u>	<u>2,304,279</u>
Total long-term securities	<u>4,071,242</u>	<u>4,653,073</u>
Short-term securities		
U.S. government (direct and guaranteed)	43,189	43,661
U.S. government agencies (non-guaranteed)	3,000	3,017
Corporate bonds	21,947	22,324
Total short-term securities	<u>68,136</u>	<u>69,002</u>
Cash and cash equivalents		
Cash held at state treasury	80,459	80,459
Money markets	4,406	4,406
Commercial paper	150,000	150,000
Total cash and cash equivalents	<u>234,865</u>	<u>234,865</u>
Total investments	<u>\$4,374,243</u>	<u>\$4,956,940</u>

See accompanying notes.

Permanent University Fund
Summary of Investment Income (Cash Basis)

Year ended August 31, 1995

Investment Income (Cash Basis) by Investment Type

Debt securities	\$187,978,696
Preferred stocks	790,671
Equity securities	50,465,469
Cash and cash equivalents	9,987,746
Other investment income	<u>311,537</u>
Total investment income	<u>\$249,534,119</u>

See accompanying notes.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis)

August 31, 1995

1. Organization

The Permanent University Fund (PUF) is a public endowment contributing to the support of eligible institutions of The University of Texas System (UT System) and The Texas A&M University System (A&M System). The UT System and the A&M System are agencies of the State of Texas. Earnings from the PUF flow into the Available University Fund (AUF).

The Summary of Investments has been prepared on the accrual basis of accounting. The Summary of Investment Income (Cash Basis) has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Summary of Investment Income (Cash Basis) presents only gross investment income on a cash basis for the year ended August 31, 1995. Expenses related to operation of the PUF are deducted after investment income has been remitted to the AUF. The Summary of Investments and the Summary of Investment Income (Cash Basis) have been prepared for the purpose of complying with Section 4 of Texas House Bill 1877, which requires a financial audit of the PUF.

2. Significant Accounting Policies

Investments

The investments of the PUF are carried at amortized cost (book value), with the exception of the PUF's 2.1 million acres of West Texas land which is not included in this report. Bond discount and premium is amortized over the life of the security using the interest method.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held at the State Treasury, money market instruments, and commercial paper.

Security Valuation

Investments are primarily valued on the basis of market valuations provided by independent pricing services.

Fixed income securities directly held are valued based upon prices supplied by Merrill Lynch Securities Pricing Service, external broker quotes, and internal pricing matrices.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis) (continued)

2. Significant Accounting Policies (continued)

The fair values of equity investments are based on the New York Stock Exchange Composite closing prices, if available. If not available, the fair value is based on the closing price on the primary exchange on which the security is traded, the closing sale or bid price on NASDAQ, other authoritative external sources, or an internal valuation determined as specified by policies established by the Board of Regents.

Securities held through index funds are generally valued as follows:

- Stocks traded on security exchanges are valued at closing market prices on the valuation date.
- Stocks traded on the over-the-counter market are valued at the last reportable bid price, except for National Market System OTC stocks which are valued at their closing market price.
- Fixed income securities are valued based upon bid quotations obtained from major market makers or security exchanges.

Foreign Currency Translation

The accounting records of the PUF are maintained in U.S. dollars. Purchases and sales of securities and income receipts are translated into U.S. dollars at the exchange rate on the dates of the transactions.

Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates.

Investment Income

Interest and dividend income is recorded when received. Dividend and interest income is recorded net of foreign taxes where recovery of such taxes is not assured. Distributions of investment income to the AUF is on a cash basis as provided by statute.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis) (continued)

2. Significant Accounting Policies (continued)

Security Transactions

Security transactions are accounted for in this report on a trade date basis. Gains and losses on securities sold are determined on the basis of average cost. A loss is recognized if there is an impairment in the value of the security that is determined to be other than temporary.

Federal Income Taxes

The PUF is not subject to federal income tax.

3. Investment Activity

During the year ended August 31, 1995, the cost of purchases and proceeds from sales and maturities of investments (excluding short-term investments) were \$811 million and \$700 million, respectively. Such transactions were made at current market prices on the dates of the transactions.

4. Securities Lending

The PUF loaned securities to certain brokers who paid the PUF negotiated lenders' fees. These fees are included in investment income. PUF receives U.S. Treasury obligations and/or cash as collateral against the loaned securities in an amount at least equal to 102% of the market value of the loaned securities. This collateral must be maintained during the period of the loan. There were no securities loaned as of August 31, 1995.

5. Investment Commitments

Unsettled trades for security purchases and unfunded contractual commitments for equity private placements was \$163 million at August 31, 1995.

Permanent University Fund

Notes to Summary of Investments and Summary of Investment Income (Cash Basis) (continued)

6. Index Funds

Market value of the index funds as of August 31, 1995 was approximately \$1.218 million. Included in these index funds are the Equity Index Fund B Lendable, which is indexed against the S&P 500 Index, and the Midcap Index Fund B Lendable, which is indexed against the S&P Midcap Index. These index funds are wholly owned by the University of Texas System's Long-Term Fund as well as the PUF, and have been accounted for using the equity method of accounting.

APPENDIX B

PERMANENT UNIVERSITY FUND SCHEDULE OF INVESTMENT VALUES

**Permanent University Fund
Schedule of Investment Values
Years Ending August 31, 1971 through 1995**

Year Ending August 31,	Market Value		Book Value					Short-term Securities & Cash & Cash Equivalents
	Total Investments	Total Investments	U. S. Government Obligations	U. S. Government Agencies (Non-Gtd)	Foreign Government Obligations	Corporate Bonds (1)	Equity Securities (2)	
1971	\$ 564,491,493	\$ 591,849,018	\$ 125,784,611	\$ -	\$ -	\$ 234,360,280	\$ 215,470,382	\$ 16,233,745
1972	633,752,043	630,575,060	145,803,494	-	-	233,763,863	247,398,863	3,608,840
1973	617,918,754	669,354,740	135,744,463	-	-	243,453,994	258,638,644	31,517,639
1974	527,782,501	714,283,775	155,858,761	1,000,000	-	247,562,656	269,522,514	40,339,844
1975	670,731,301	781,771,634	208,918,986	1,000,000	-	279,571,991	270,865,293	21,415,364
1976	835,071,286	854,598,399	242,294,931	1,000,000	-	281,548,560	298,523,549	31,231,359
1977	919,814,402	946,070,598	261,884,550	1,000,000	-	292,352,324	344,731,989	46,101,735
1978	1,008,404,752	1,043,320,990	316,232,682	1,000,000	-	297,913,283	373,021,438	55,153,587
1979	1,094,333,796	1,133,818,376	341,448,556	17,788,975	-	326,340,719	396,179,645	52,060,481
1980	1,150,403,914	1,256,467,903	371,023,096	16,152,581	-	388,186,878	434,713,755	46,391,593
1981	1,293,316,410	1,519,350,741	444,816,629	23,535,098	-	475,321,515	425,512,468	150,165,031
1982	1,615,383,489	1,725,744,320	510,405,770	38,111,206	-	568,225,859	500,389,055	108,612,430
1983	2,011,544,826	1,902,619,273	589,721,845	32,089,505	-	630,357,639	579,748,769	70,701,515
1984	2,150,403,445	2,082,521,497	619,104,344	18,083,086	-	668,456,134	701,217,910	75,660,023
1985	2,556,286,339	2,316,874,704	579,011,221	25,515,038	-	706,713,287	626,924,265	378,710,893
1986	3,112,081,335	2,605,526,501	605,012,042	53,762,857	-	694,416,299	767,028,385	485,306,918
1987	3,395,190,361	2,919,540,498	503,934,291	176,478,682	-	688,050,906	864,579,822	686,496,797
1988	3,227,421,237	3,082,118,711	471,684,660	284,347,623	-	712,645,527	997,439,895	616,001,006
1989	3,740,390,017	3,294,392,325	624,382,654	316,207,653	-	735,211,572	1,150,005,562	468,584,884
1990	3,541,314,859	3,435,080,203	564,158,127	313,131,769	2,000,000	748,962,695	1,180,358,091	626,469,521
1991	3,921,627,069	3,526,480,946	643,177,509	331,608,491	19,433,109	846,531,726	925,632,834	760,097,277
1992	4,145,368,809	3,656,917,262	540,306,924	395,147,012	31,471,579	905,768,815	1,289,434,798	494,788,134
1993	4,468,746,378	4,044,284,360	459,867,750	452,380,669	66,532,614	1,139,272,165	1,537,380,599	388,850,563
1994 (3)	4,433,280,546	4,218,519,444	422,160,628	385,978,218	89,341,232	1,285,752,081	1,735,772,405	299,514,880
1995	4,956,939,846	4,374,243,071	397,423,293	353,890,585	95,394,478	1,371,230,907	1,853,302,651	303,001,157

- (1) 1971 and 1979 and subsequent years include Corporate, Municipal and County Bonds and Preferred Stocks.
(2) Includes Convertible Debentures, Convertible Preferred Stocks, Partnerships, Common Stocks and Index Funds.
(3) Investments reflect trade date basis while cash reflects settlement date basis.

APPENDIX C

**COMBINED DEBT SERVICE REQUIREMENTS
OF THE OUTSTANDING PUF BONDS AND THE BONDS**

APPENDIX C

**COMBINED DEBT SERVICE REQUIREMENTS
OF THE OUTSTANDING PUF BONDS AND THE BONDS**

FISCAL YEAR ENDING AUGUST 31	SERIES 1988, 1991, 1992A AND 1992B DEBT SERVICE PRIOR TO REFUNDING	DEBT SERVICE ON REFUNDED BONDS (1)	DEBT SERVICE ON THE BONDS (1) (2)	TOTAL DEBT SERVICE (1) (2)
1996	\$55,395,080	\$(7,507,019)	\$7,052,421	\$54,940,483
1997	55,395,455	(15,014,038)	14,111,093	54,492,510
1998	55,396,570	(15,014,038)	14,111,343	54,493,875
1999	55,396,880	(23,514,038)	22,607,593	54,490,435
2000	55,396,190	(22,919,038)	22,014,843	54,491,995
2001	55,399,430	(21,824,038)	20,921,093	54,496,485
2002	51,537,715	(13,344,038)	12,436,593	50,630,270
2003	51,538,910	(26,404,038)	25,497,343	50,632,215
2004	51,537,610	(30,260,138)	29,356,093	50,633,565
2005	51,539,540	(30,256,923)	29,350,193	50,632,810
2006	51,536,345	(30,259,158)	29,355,755	50,632,943
2007	51,540,665	(30,257,228)	29,350,320	50,633,758
2008	51,539,780	(30,256,343)	29,349,800	50,633,238
2009	51,538,978	(30,254,603)	29,348,500	50,632,875
2010	51,540,700	(30,257,888)	29,350,500	50,633,313
2011	51,537,325	(30,257,013)	29,350,250	50,630,563
2012	29,306,250	(7,033,125)	6,129,750	28,402,875
2013	29,303,750	(7,033,750)	6,126,750	28,396,750

(1) Preliminary, subject to change.

(2) Assumed interest rates used for purposes of illustration.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
 3700 TRAMMELL CROW CENTER
 2001 ROSS AVENUE
 DALLAS, TEXAS 75201-2975
 TELEPHONE (214) 220-7700
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WRITER'S TELEPHONE

_____, 1996

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
 PERMANENT UNIVERSITY FUND REFUNDING BONDS
 SERIES 1996, DATED _____, 1996,
 IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

WE HAVE ACTED AS BOND COUNSEL to the Board of Regents of The University of Texas System (the "Board") in connection with the issuance by the Board of the bonds described above (the "Bonds"). The Bonds are issuable only as fully registered bonds in the denomination of \$5,000 principal amount or any integral multiple thereof. The Bonds bear interest from _____, 1996 until maturity or prior redemption, payable on _____ 1, 1996 and on each January 1 and July 1 thereafter until maturity or prior redemption, at the respective rates of interest per annum and maturing on the dates and in the respective amounts set forth below:

<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
1996			2005		
1997			2006		
1998			2007		
1999			2008		
2000			2009		
2001			2010		
2002			2011		
2003			2012		
2004			2013		

THE BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Board on January 5, 1996 (the "Bond Resolution"), for the purpose of obtaining funds to refund certain outstanding obligations of the Board. The Bonds are secured equally and ratably, together with other outstanding obligations of the Board issued on a parity with the Bonds, by a first lien on and pledge of the "Interest of the System" in the "Available University Fund" (as such quoted terms are defined in the Bond Resolution). The Board has reserved the right to issue other obligations on a parity with the Bonds and the other bonds secured equally and ratably therewith, and to amend the Bond Resolution with the approval of the owners of 51% of the outstanding principal amount of all bonds and notes of the Board that are secured by and payable from a first lien on and pledge of the Interest of the System in the Available University Fund.

THE SCOPE OF OUR ENGAGEMENT AS BOND COUNSEL extends solely to an examination of the facts and law incident to rendering an opinion with respect to the legality and validity of the Bonds and the security therefor under the Constitution and laws of the State of Texas, and with respect to the excludability of interest on the Bonds from gross income of the holders thereof for federal income tax purposes. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of The University of Texas System or the "Permanent University Fund" (as defined in the Bond Resolution) or the Available University Fund, and we have not assumed any responsibility with respect to the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Board's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have examined applicable provisions of the Constitution and laws of the State of Texas and a transcript of certain materials pertaining to the Bonds and the bonds being refunded, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board and Texas Commerce Bank National Association (the "Escrow Agent"); the report of KPMG Peat Marwick LLP, certified public accountants, verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the bonds being refunded and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; customary certificates, affidavits and other documents executed by officers, agents and representatives of the Board, the State of Texas, the Escrow Agent and others; and other certified showings related to the authorization and issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the bonds being refunded. We have also examined fully executed Bond No. R-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT:

(a) The Board is the governing body of The University of Texas System, a duly created and existing agency of the State of Texas, and has full power and authority to issue the Bonds and to adopt the Bond Resolution and perform its obligations thereunder.

(b) The Board has duly adopted the Bond Resolution, which resolution duly authorizes the issuance, sale, execution and delivery of the Bonds. Authorized representatives of the Board have duly executed the Bonds, and the Bonds have been duly registered and delivered to the underwriters thereof. The Bonds constitute legal, valid and binding limited obligations of the Board secured, along with certain other obligations of the Board, by a first lien on and pledge of the Interest of the System in the Available University Fund; provided, however, that the enforceability of certain provisions of the Bonds and the Bond Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors and by general principles of equity that permit the exercise of judicial discretion. The form and execution of executed Bond No. R-1 are regular and proper.

(c) The Bonds are issued and delivered pursuant to and in accordance with the Bond Resolution and the Constitution and laws of the State of Texas, particularly article VII, section 18 of the Texas Constitution, section 65.46, Texas Education Code, and articles 717k and 717q, Texas Revised Civil Statutes Annotated, all as amended. The Bonds are not general obligations of the Board but are special, limited obligations payable solely from revenues, funds and assets pledged under the Bond Resolution and not from any other revenues, funds or assets of the Board. The Bonds are not and do not create or constitute in any way an obligation, a debt or a liability of the State of Texas or create or constitute a pledge, giving or lending of the faith or credit or taxing power of the State of Texas.

(d) Firm banking and financial arrangements have been made for the discharge and final payment of the bonds being refunded pursuant to an Escrow Agreement entered into between the Board and the Escrow Agent and effective the date of delivery of the Bonds, and, therefore, such bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

IT IS OUR FURTHER OPINION THAT:

(i) Interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes under existing law.

(ii) The difference between the amount payable at maturity of each Bond maturing on July 1 of the years _____ (the "Original Issue Discount Bonds"), and the "issue price" of such Bond (based on the initial reoffering "yield" or "price" as stated in the Official Statement prepared for use in connection with the sale of the Bonds) is excludable from gross income for federal income tax purposes as original issue discount under existing law.

(iii) The Bonds are not "private activity bonds," within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in "adjusted current earnings" of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax and its Superfund "environmental tax" liability.

In providing the opinions set forth in paragraphs (i), (ii) and (iii) above, we have relied on representations of the Board and the underwriters of the Bonds with respect to matters solely within the knowledge of the Board and said underwriters, respectively, which we have not independently verified, and we have assumed continuing compliance with the covenants in the Bond Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the report of KPMG Peat Marwick LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If such report or representations are determined to be inaccurate or incomplete or the Board fails to comply with the foregoing covenants of the Bond Resolution, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Purchasers of Original Issue Discount Bonds in the initial public offering are directed to the discussion entitled "TAX MATTERS — Tax Accounting Treatment of Original Issue Discount Bonds" set forth in the Official Statement prepared for use in connection with the sale of the Bonds for purposes of determining the portion of the original issue discount described in paragraph (ii) above which is allocable to the period such Bonds are held by a holder. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of, the Bonds. Each prospective purchaser should consult his own tax advisor with respect to such matters.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

Our opinions are based on existing law, which is subject to change. Our opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any change in law that may hereafter occur or become effective.

PURCHASE CONTRACT

RELATING TO

§ _____
**Board of Regents of The University of Texas System
Permanent University Fund Refunding Bonds
Series 1996**

January __, 1996

**Board of Regents
The University of Texas System
201 West 7th Street
Austin, Texas 78701**

Ladies and Gentlemen:

The undersigned, J. P. Morgan Securities Inc. (the "Representative"), on behalf of itself, Morgan Stanley & Co. Incorporated; Artemis Capital Group, Inc.; George K. Baum & Co.; M. R. Beal & Company; A. G. Edwards & Sons, Inc.; Estrada Hinojosa & Company Inc.; First Southwest Company; Goldman, Sachs & Co.; Grigsby Brandford & Co., Inc.; John Nuveen & Co. Incorporated; Rauscher Pierce Refsnes, Inc.; and Walton Johnson & Company (collectively, the Underwriters), offer to enter into this Purchase Contract with the Board of Regents of The University of Texas System (the "Issuer"). This offer is made subject to the Issuer's acceptance of this Purchase Contract on or before 5:00 p.m., Austin, Texas time, on January __, 1996, and if not so accepted will be subject to withdrawal by the Underwriters upon notice delivered to the Issuer by the Representative at any time prior to the acceptance hereof by the Issuer. Capitalized terms used herein that are not otherwise defined herein or defined by reference to another document shall have the meanings assigned to them in the Official Statement (the "Official Statement") relating to the captioned Bonds (the "Bonds"), a copy of which is being provided to you with this Purchase Contract.

1. **Purchase.** Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriters, jointly and severally, hereby agree to purchase from the Issuer, and the Issuer hereby agrees to sell and deliver to the Underwriters, (a) all (but not less than all) of an aggregate principal amount of \$ _____, Board of Regents of The University of Texas System Permanent University Fund Refunding Bonds, Series 1996 for a purchase price of \$ _____ (representing the principal amount of the Bonds, less an underwriting discount of \$ _____, plus a premium of \$ _____ and less an original issue discount of \$ _____), together with accrued interest on the Bonds from their dated date to the date of delivery.

2. **Terms of Bonds.** The Bonds shall be as described in, and shall be issued and secured under the provisions of, the resolution adopted by the Issuer on January 5, 1996, authorizing the

issuance of the Bonds (the "Resolution"). The Bonds shall be dated, shall be in such form, shall have the maturities, shall bear interest from the dates and at the rates, shall be subject to redemption and shall have the other characteristics and terms all as set forth on Exhibit A hereto and in the Form of Bond set forth in the Resolution.

3. **Purpose.** As set forth in the Official Statement, the proceeds of the Bonds will be used for refunding certain outstanding obligations of the Issuer (the "Refunded Bonds"). In order to accomplish such refunding and defeasance, it will be necessary at the Closing (as hereinafter defined) for the Issuer to purchase, with a portion of the proceeds of the Bonds, certain direct obligations of the United States of America (the "Federal Securities") the maturing principal of and interest on which will be sufficient to provide for the full and timely payment of the Refunded Bonds.

4. **The Representative.** J. P. Morgan Securities Inc., as the book-running senior manager, has been duly authorized to execute this Purchase Contract and to act hereunder as the Representative, by and on behalf of the Underwriters.

5. **All Bonds Must be Delivered.** It shall be a condition of the obligation of the Issuer to sell and deliver the Bonds to the Underwriters, and of the obligation of the Underwriters to purchase and accept delivery of the Bonds, that the entire \$ _____ principal amount of the Bonds shall be sold and delivered by the Issuer and accepted and paid for by the Underwriters at the Closing.

6. **Public Offering and Official Statement.** (a) The Underwriters agree to make a bona fide public offering of all of the Bonds so delivered at prices not in excess of the initial public offering prices as set forth on the cover page of the Official Statement, plus interest accrued on the Bonds from the date thereof.

(b) The Issuer hereby authorizes the Underwriters to use the Resolution, the Escrow Agreement (as hereinafter defined), the Official Statement and the information contained in any of those documents in connection with the public offering and sale of the Bonds. The Issuer confirms its consent to the use by the Underwriters prior to the date hereof of the Preliminary Official Statement relating to the Bonds, dated January __, 1996 (the "Preliminary Official Statement") (the Issuer hereby acknowledges that a copy of the Preliminary Official Statement has been reviewed by the Issuer), in connection with the preliminary public offering and sale of the Bonds. The Issuer agrees to cooperate with the Underwriters to provide a supply of final Official Statements within seven business days of the date hereof in sufficient quantities to comply with the Underwriters' obligations under applicable MSRB Rules and Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. The Issuer confirms that, as of the date of the Preliminary Official Statement, the Issuer, solely for purposes of the Rule, deemed the information in the Preliminary Official Statement to have been final as of its date (except for the offering price, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery date, ratings of the Bonds and other exceptions as are permitted by the Rule). To the best knowledge and belief of the Issuer, the Official Statement contains information, including financial information or operating data, concerning every entity,

enterprise, fund, account or person that is material to an evaluation of the offering of the Bonds. The Issuer has not failed to comply with any undertaking specified in paragraph (b)(5)(i) of Rule 15c2-12 within the last five years.

(c) If, after the date of this Purchase Contract to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the same pursuant to the Rule (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized municipal securities repository, but in no case less than 25 days after the "end of the underwriting period" for the Bonds), the Issuer becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser, not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the Issuer will notify the Representative (and for the purposes of this clause provide the Representative with such information as it may from time to time request), and if, in the opinion of the Representative or the Issuer, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the Issuer will forthwith prepare and furnish, at the Issuer's own expense (in a form and manner approved by the Representative), a reasonable number of copies of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not, in light of the circumstances when the Official Statement is delivered to a purchaser, be misleading or so that the Official Statement will comply with law. If such notification shall be subsequent to the Closing, the Issuer shall furnish such legal opinions, certificates, instruments and other documents as the Representative may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(d) The Representative hereby agrees to timely file the Official Statement with a nationally recognized information repository and notify the Issuer of the date of such filing. Unless otherwise notified in writing by the Representative, the Issuer can assume that the "end of the underwriting period" for purposes of the Rule shall be the date of the Closing.

7. **Representations, Warranties and Agreements.** On the date hereof, the Issuer represents, warrants and agrees as follows:

(a) The University of Texas System (the "System") is duly organized and existing as an agency of the State of Texas and the Issuer is the duly appointed governing body of the System. The Issuer and the System have the powers and authority, among others, set forth in Article 7, Section 18 of the Constitution of the State of Texas and the Texas Education Code to adopt the Resolution and issue the Bonds;

(b) By official action of the Issuer on January 5, 1996, and the action of the Authorized Representative (as defined in the Resolution) of the Issuer, acting on behalf of the

Issuer, on the date hereof, the Issuer has duly adopted the Resolution and duly authorized and approved the execution and delivery of, and the performance by the Issuer of the obligations contained in, the Bonds, the Resolution, the Escrow Agreement dated as of January __, 1996 by and between the Issuer and Texas Commerce Bank National Association (the "Escrow Agent") relating to the Refunded Bonds (the "Escrow Agreement") and this Purchase Contract;

(c) The Issuer is not in breach of or default under any applicable law or administrative regulation of the State of Texas or the United States or any applicable judgment or decree or any loan agreement, note, resolution, agreement, or other instrument, except as may be disclosed in the Official Statement, to which the Issuer is a party or, to the actual knowledge of the Vice Chancellor and General Counsel of the System, is otherwise subject, which would have a material and adverse effect upon the financial condition of the Permanent University Fund, the Interest of the System in the Available University Fund or the execution and delivery of this Purchase Contract by the Issuer;

(d) The Issuer is not in breach of or in default under the proceedings which authorized the issuance of the Refunded Bonds (collectively, the "Prior Resolution"), and the Issuer's execution and delivery of the Bonds, this Purchase Contract and the Escrow Agreement and the Issuer's adoption of the Resolution does not and will not violate or constitute a breach of or default under any existing law, administrative regulation, judgment or decree or any loan agreement, note, resolution, agreement or other instrument to which the Issuer is a party or by which the Issuer, the Permanent University Fund or the Interest of the System in the Available University Fund are otherwise subject;

(e) All approvals, consents and orders of any governmental authority or agency having jurisdiction of any matter that would constitute a condition precedent to the performance by the Issuer of its obligations to sell and deliver the Bonds have been or will be obtained prior to the Closing;

(f) The Official Statement accurately describes or summarizes the provisions of the Resolution, the Escrow Agreement, the Permanent University Fund, the Interest of the System in the Available University Fund and the Bonds, and the Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(g) Except as described in the Official Statement, no litigation is pending or, to the knowledge of the Vice Chancellor and General Counsel of the System, threatened in any court affecting the corporate existence of the Board, the title of its officers to their respective offices, or seeking to restrain or enjoin the issuance or delivery of the Bonds, or the collection or application of the Interest of the System in the Available University Fund pledged by the Board to pay the principal of and interest on the Bonds or in any way contesting or affecting the validity or enforceability of the Bonds, the Resolution, the Escrow Agreement or this Purchase Contract, or contesting the powers of the Board, or any legal authority of the Board pertaining to the Bonds, the Resolution, the Escrow Agreement or this Purchase Contract or

contesting in any way the completeness, accuracy, or fairness of the Preliminary Official Statement or the Official Statement;

(h) The Issuer will cooperate with counsel to the Underwriters in arranging for the qualification of the Bonds for sale and the determination of their eligibility for investment under the laws of such jurisdictions as the Representative designates and will use its best and reasonable efforts to continue such qualifications in effect so long as required for distribution of the Bonds; provided, however, that the Issuer will not be required to execute a special or general consent to service of process or qualify to do business in connection with any such qualification in any jurisdiction;

(i) The Resolution creates a valid lien on the Interest of the System in the Available University Fund, and the Bonds, when validly executed, authenticated, certified, and delivered in accordance with the Resolution and sold to the Underwriters as provided herein, will be validly issued and outstanding obligations of the Issuer entitled to the benefits of the Resolution;

(j) If at any time prior to the Closing and for a period of thirty (30) days after the Closing, any event occurs affecting the Issuer, the Permanent University Fund or the Interest of the System in the Available University Fund that is materially adverse for the purpose for which the Official Statement is to be used and is not disclosed in the Official Statement, the Issuer shall promptly notify the Representative, and if in the opinion of the Representative such event requires a supplement or amendment to the Official Statement, the Issuer will supplement or amend the Official Statement in a form and in a manner approved by the Underwriters; and

(k) The financial statements of, and other financial information regarding, the Permanent University Fund and the Interest of the System in the Available University Fund in the Official Statement fairly present the financial position and results of the Permanent University Fund and the Interest of the System in the Available University Fund as of the dates and for the periods therein set forth.

8. **Closing.** (a) At 9:00 a.m. local time in Austin, Texas, on February __, 1996 (the "Closing"), the Board will deliver the Bonds to the Underwriters in the form of one printed or typewritten Bond certificate for each maturity, registered in the name of the Representative, or as otherwise requested by the Representative, in the aggregate principal amount of \$ _____ (the "Initial Bonds"). The Initial Bonds shall be approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas. Subject to the terms and conditions hereof, the Board will deliver at the offices of Vinson & Elkins L.L.P., One American Center, Suite 2900, 600 Congress Ave., Austin, Texas 78701, or at such other location as is mutually agreeable, the Initial Bonds and the other documents and instruments to be delivered at the Closing pursuant to this Purchase Contract (the "Closing Documents"). The Underwriters will accept delivery of the Initial Bonds and the Closing Documents and pay the purchase price for the Bonds as set forth in Paragraph 1 hereof in immediately available funds for unconditional credit to the Board, or as otherwise directed by the Board. The Initial Bonds and the Closing Documents shall be made

available for inspection by the Underwriters at the place for delivery of the Closing Documents at least one full business day before the Closing.

Upon surrender of the Initial Bonds for exchange, definitive Bonds shall be issued in the form of one typewritten or printed Bond certificate for each maturity, registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), in the aggregate principal amount of \$ _____. Delivery of the definitive Bonds as aforesaid shall be made at the place in New York, New York, designated by DTC. The definitive Bonds shall be filed with The Depository Trust Company (at which location they may be inspected by the Representative) at least 24 hours before the Closing. The definitive Bonds shall bear proper CUSIP numbers (provided, however, that neither the printing of a wrong CUSIP number on any Bond nor the failure to print a CUSIP number thereon shall constitute cause to refuse to accept delivery of any Bond).

(b) In the event that the Underwriters fail (other than for a reason permitted hereunder) to accept delivery of and to pay for the Bonds at the Closing as herein provided, the Underwriters shall pay to the Board an amount equal to one percent (1%) of the aggregate principal amount of the Bonds (being the amount of \$ _____) as and for full liquidated damages for such failure and for any defaults hereunder on the part of the Underwriters and, except as set forth in Paragraphs 11 and 13 hereof, neither party hereto shall have any further rights against the other hereunder.

9. **Conditions Precedent.** The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and agreements of the Issuer contained herein and to be contained in the documents and instruments to be delivered at the Closing, and upon the performance by the Issuer of its obligations hereunder and under such documents and instruments, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriters' obligations under this Purchase Contract to purchase and pay for the Bonds shall be subject to the performance by the Issuer of its obligations hereunder and under such documents and instruments at or prior to the Closing. The Underwriters' obligations under this Purchase Contract shall also be subject to the following conditions:

(a) The representations and warranties of the Issuer contained herein shall be true, complete, and correct in all material respects at the date hereof and on and as of the date of the Closing, as if made on the date of such Closing;

(b) At the time of the Closing, the Resolution, as certified by the Issuer's Executive Secretary under the Issuer's seal, shall have been duly adopted and shall be in full force and effect and shall not have been amended, modified, or supplemented, and the Official Statement shall not have been amended, modified, or supplemented, except as may have been agreed to by the Representative;

(c) At the time of the Closing, the Issuer shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money or otherwise be in default on any such obligation, and there shall not exist any event that with giving of notice would constitute a default;

(d) At or prior to the Closing, the Underwriters shall have received each of the following documents:

(1) The Official Statement, executed on behalf of the Issuer by the Assistant Vice Chancellor for Finance;

(2) The Resolution certified by the Issuer's Executive Secretary, under the Issuer's seal as having been duly adopted by the Issuer and as being in effect, with such changes or amendments as may have been agreed to by the Representative; the Resolution shall contain the agreement of the Issuer, in form satisfactory to the Representative, which is described under the heading "Continuing Disclosure of Information" in the Preliminary Official Statement;

(3) An unqualified bond opinion dated the date of the Closing, of Vinson & Elkins L.L.P., Bond Counsel, in substantially the form attached to the Official Statement as Appendix D;

(4) A supplemental opinion of Vinson & Elkins L.L.P., in substantially the form attached to this Purchase Contract as Exhibit B;

(5) An unqualified approving opinion or certificate of the Attorney General of the State of Texas approving the Bonds as required by law;

(6) An opinion of McCall, Parkhurst & Horton L.L.P., counsel to the Underwriters, in form and substance satisfactory to the Representative;

(7) A certificate dated the date of Closing signed by the Vice Chancellor of the System and General Counsel to the effect that, except to the extent disclosed in the Official Statement, no litigation is pending or, to his knowledge, threatened in any court to restrain or enjoin the issuance or delivery of the Bonds, or the collection or application of revenues and funds pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity of the Bonds, the Resolution, the Escrow Agreement, or this Purchase Contract, or contesting the powers of the Issuer or contesting the authorization of the Bonds or the Resolution, or contesting in any way the accuracy, completeness, or fairness of the Preliminary Official Statement or the Official Statement;

(8) A certificate, dated the date of Closing, signed by the Assistant Vice Chancellor for Finance of the System to the effect that, to the best of his knowledge, based on information from the Issuer's accountants and advisors (A) the representations and warranties of the Issuer contained herein are true and correct in all material respects on and as of the date of Closing as if made on the date of Closing; (B) the Official Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (C) no event affecting the Issuer, the Permanent University Fund or the

Interest of the System in the Available University Fund has occurred since the date of the Official Statement which is materially adverse for the purpose for which the Official Statement is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (D) there has not been any material adverse change in the financial condition of the Issuer, the Permanent University Fund, or the Interest of the System in the Available University Fund from that reflected in the Board's financial statements and the financial information contained in the Official Statement;

(9) A fully executed Escrow Agreement and appropriate documentation that evidences that all Federal Securities and cash required to be deposited with the Escrow Agent have been purchased by or delivered to the Escrow Agent, all as described in the Official Statement, together with certificates, dated as of the date of the Closing, executed by an appropriate official of the Escrow Agent, to the effect that such Escrow Agreement has been duly authorized, executed, and entered into by the Escrow Agent;

(10) A certificate dated the date of the Closing, by an appropriate official of the System to the effect that, on the basis of the facts, estimates, and circumstances in effect on the date of delivery of the Bonds, it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

(11) A report of KPMG Peat Marwick LLP, independent certified public accountants, stating that such firm has verified the mathematical accuracy of certain computations based upon assumptions provided to them relating to the adequacy of the maturing principal amounts of the Federal Securities and the interest thereon held in the escrow fund required by the Prior Resolution and the Escrow Agreement to pay when due all of the principal of and interest on all of the Refunded Bonds;

(12) Letters from Standard & Poor's Corporation, Fitch Investors Service and Moody's Investors Service to the effect that all of the Bonds have been rated AA+, AA+, and Aaa, respectively;

(13) A certificate of the Assistant Vice Chancellor for Finance of the System stating in effect that the information supplied to the Underwriters relating to the outstanding principal amount of Refunded Bonds including their interest rates and redemption dates, is true and correct in all material respects;

(14) Evidence that provisions have been made to insure that the Refunded Bonds have been or will be called for redemption on the dates shown in the report of KPMG Peat Marwick LLP; and

(15) Such additional legal opinions, certificates, instruments, and other documents as the Representative may reasonably request to evidence the truth,

accuracy, and completeness, as of the date hereof and as of the date of the Closing, of the Issuer's representations and warranties contained herein and of the statements and information contained in the Official Statement, and the due performance and satisfaction by the Issuer at or prior to the date of the Closing of all agreements then to be performed and all conditions then to be satisfied by the Issuer.

All the opinions, letters, certificates, instruments, and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are satisfactory to the Representative.

If the Issuer shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of, and to pay for all the Bonds as set forth in this Purchase Contract, or if the obligations of the Underwriters to purchase, to accept delivery of, and to pay for any of the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate, and neither the Underwriters nor the Issuer shall be under further obligation hereunder with respect to the Bonds, except that the respective obligations of the Issuer and the Underwriters set forth in Paragraphs 11 and 13 hereof shall continue in full force and effect.

10. **Terminating Events.** The Underwriters may terminate their obligation to purchase all of the Bonds at any time on or after the date of this Purchase Contract or on or before the date of the Closing if any of the following should occur:

(a) (i) Legislation shall have been enacted by the Congress of the United States, recommended to Congress for passage by the President of the United States or favorably reported for passage to either Chamber of Congress by any Committee of such Chamber, (ii) a decision shall have been rendered by a court established under Article III of the Constitution of the United States or by the United States Tax Court, (iii) an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service, or any other agency of the United States, or (iv) a release or official statement shall have been issued by the President of the United States, by the Treasury Department of the United States, by the Internal Revenue Service or by the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, the effect of which, in any such case described in clauses (i), (ii), (iii), or (iv), would be to, directly or indirectly, affect the status of the Issuer, the Permanent University Fund, or the Interest of the System in the Available University Fund, or impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds or upon income of the general character to be derived by the Issuer with respect to the Permanent University Fund or the Interest of the System in the Available University Fund, other than as imposed under the federal tax laws in effect on the date hereof, in such a manner as in the judgment of the Representative would materially impair the marketability or materially reduce the market price of the Bonds.

(b) Legislation shall have been enacted by the Congress of the United States to become effective on or prior to the Closing, any action shall have been taken by the Securities and Exchange Commission, by a court or by any other agency having jurisdiction over the

issuance, sale and delivery of the Bonds, or any other obligations of any similar public body of the general character of the Issuer, which would require registration of any security under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of any of the Bonds, or any action shall have been taken by any court or by any governmental authority suspending the use of the Preliminary Official Statement or the Official Statement or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) The Constitution of the State of Texas shall be amended or an amendment shall be proposed, (ii) legislation shall be enacted, (iii) a decision shall have been rendered as to matters of Texas law, or (iv) any order, ruling, or regulation shall have been issued or proposed by or on behalf of the State of Texas by an official, agency, or department thereof in any such case described in clauses (i), (ii), (iii), or (iv), affecting the tax status of the Issuer, the System, their respective properties or income, or bonds (including the Bonds) or the interest thereon or any tax exemption granted or authorized under the laws of the State of Texas which, in the judgment of the Representative, would materially reduce the market price of the Bonds.

(d) (i) A general suspension of trading in securities shall have occurred on the New York Stock Exchange or (ii) other national emergency relating to the effective operation of government or the financial community shall have occurred, the effect of which, in either case described in clauses (i) or (ii), is, in the judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of any of the Bonds on the terms and in the manner contemplated in this Purchase Contract and the Official Statement.

(e) (i) The United States engages in hostilities, (ii) there is a material change in the nature of, a material adverse development in the conduct of, or an escalation of, any hostilities involving the United States which are ongoing on the date hereof, or (iii) there is a declaration of war or a national emergency by the United States on or after the date hereof the effect of which, in the judgment of the Representative, would materially impair the marketability or materially reduce the market price of the Bonds.

(f) An event described in Paragraph 7(j) hereof occurs that, in the opinion of the Representative, requires a supplement or amendment to the Official Statement.

(g) A general banking moratorium shall have been declared by authorities of the United States, the State of New York, or the State of Texas.

(h) The debt ceiling of the United States is such that any of the Federal Securities required to fund the Escrow Agreement are not available for delivery on the date of the delivery of the Bonds unless satisfactory Federal Securities can be obtained in the open market.

11. **Expenses.** (a) The Underwriters shall be under no obligation to pay, and the Issuer shall pay, any expenses incident to the performance of the Issuer's obligations hereunder, including but not limited to: (i) the fees and disbursements of Bond Counsel to the Issuer; (ii) the fees and disbursements of the Issuer's accountants and advisors, and of any other experts or consultants retained by the Issuer; (iii) the fees for bond ratings relating to the Bonds; (iv) the initial registration and paying agent's acceptance fees; (v) the fees and disbursements for the Escrow Agent and paying agent for the Refunded Bonds; (vi) the cost of the preparation and printing of the Resolution, the Preliminary Official Statement, the final Official Statement and the Bonds; and (vii) all other miscellaneous and closing costs not paid by the Underwriters as provided in subparagraph (b) of this paragraph 11.

(b) The Underwriters shall pay: (i) the cost of the preparation and printing of the Agreement Among Underwriters, this Purchase Contract and the Blue Sky Survey; (ii) all advertising expenses in connection with the offering of the Bonds; and (iii) all other expenses incurred by them or any of them in connection with their offering and distribution of the Bonds, including the fees and disbursements of counsel retained by them.

12. **Notice.** Any notice or other communication to be given to the Issuer under this Purchase Contract may be given by delivering the same in writing at the address for the Issuer set forth above, and any notice or other communication to be given to the Underwriters under this Purchase Contract may be given by delivering the same in writing to J. P. Morgan Securities Inc., 60 Wall Street, 33rd Floor, New York, New York 10260-0060, Attention: Peter Clarke, Municipal Bond Department.

13. **Benefit.** This Purchase Contract is made solely for the benefit of the Issuer and the Underwriters (including the successors or assigns of any Underwriter), and no other person shall acquire or have any right hereunder or by virtue hereof. The Issuer's representations, warranties, and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) any investigations made by or on behalf of any of the Underwriters and (b) delivery of any payment for the Bonds hereunder; and the Issuer's representations and warranties contained in paragraph 7 of this Purchase Contract shall remain operative and in full force and effect, regardless of any termination of this Purchase Contract.

14. **Effective Date.** This Purchase Contract shall become effective upon the execution of the acceptance hereof by the Issuer and shall be valid and enforceable as of the time of such acceptance.

15. **Governing Law.** This Purchase Contract shall be interpreted under and enforced in accordance with the laws of the State of Texas.

16. **Severability.** The invalidity of any provision of this Purchase Contract shall not impair the validity of any other provision. If any provision of this Purchase Contract is determined by a court of competent jurisdiction to be unenforceable, such provision shall be deemed severable, and the Purchase Contract may be enforced with such provisions severed or as modified by such court.

Very truly yours,

J. P. Morgan Securities Inc.
Morgan Stanley & Co. Incorporated
Artemis Capital Group, Inc.
George K. Baum & Co.
M. R. Beal & Company
A. G. Edwards & Sons, Inc.
Estrada Hinojosa & Company Inc.
First Southwest Company
Goldman, Sachs & Co.
Grigsby Brandford & Co., Inc.
John Nuveen & Co., Incorporated
Rauscher Pierce Refsnes, Inc.
Walton Johnson & Company

By: J. P. Morgan Securities Inc.

By _____
Vice President

ACCEPTED:

This __ day of _____, 1996.

BOARD OF REGENTS OF THE UNIVERSITY
OF TEXAS SYSTEM

By: _____
Assistant Vice Chancellor for Finance

EXHIBIT A

DESCRIPTION OF THE BONDS

EXHIBIT B

**SUPPLEMENTAL OPINION
OF BOND COUNSEL**

_____, 1996

Board of Regents of The University of Texas System
201 West 7th Street
Austin, Texas 78701

J. P. Morgan Securities, Inc.
as the Representative of the
various Underwriters listed
in the Purchase Contract
relating to the captioned
Bonds

Re: \$ _____ Board of Regents of The University of Texas System
Permanent University Fund Refunding Bonds, Series 1996

Ladies and Gentlemen:

We have acted as bond counsel with reference to the above issue of bonds (the "Bonds"), which are authorized to be issued by a resolution (the "Board Resolution") adopted by the Board of Regents of The University of Texas System (the "Board") on January 5, 1996 (the "Resolution").

It is our opinion that the Bonds are exempted securities within the meaning of Section 3(a) (2) of the Securities Act of 1933, as amended, and that it is not necessary in connection with the offer and sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Resolution under the Trust Indenture Act of 1939, as amended.

We were not requested to participate, and did not take part, in the preparation of the Official Statement dated _____, 1996, pertaining to the Bonds, except as hereinafter noted, and we have not verified, and are not passing upon and do not assume any responsibility for, the accuracy, completeness or fairness of the statements contained therein. We have, however, reviewed the

information relating to the Bonds and the Resolution contained in the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCING," "DESCRIPTION OF THE BONDS" (other than the information under the caption "Book-Entry Only System"), "SECURITY FOR THE BONDS," "PERMANENT UNIVERSITY FUND--Introduction," "LEGAL MATTERS," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for financial and statistical information contained under any such caption). We are of the opinion that the information relating to the Bonds and the Resolution contained under such captions is a fair and accurate summary of the information purported to be shown therein.

This letter is furnished to you by us, and is solely for your benefit, and no one else is entitled to rely upon this letter.

Respectfully submitted,

EXHIBIT 2
(Reference Item 2)

Special Meeting
Board of Regents
The University of Texas System
Ninth Floor, Ashbel Smith Hall, 201 W. 7th Street
Austin, Texas
January 5, 1996 -- 10:00 a.m.
(Via Telephone Conference Call)

**FOURTH SUPPLEMENTAL RESOLUTION TO THE MASTER
RESOLUTION AUTHORIZING THE ISSUANCE, SALE, AND
DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY OF
TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, AND
APPROVING AND AUTHORIZING INSTRUMENTS AND
PROCEDURES RELATING THERETO**

(/ky: 2535.042\4supres - 12/21/95)

**FOURTH SUPPLEMENTAL RESOLUTION TO THE MASTER RESOLUTION
AUTHORIZING THE ISSUANCE, SALE, AND DELIVERY OF BOARD OF
REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE
FINANCING SYSTEM BONDS, AND APPROVING AND AUTHORIZING
INSTRUMENTS AND PROCEDURES RELATING THERETO**

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EXHIBIT A - DEFINITIONS

EXHIBIT B - FORM OF BONDS

**FOURTH SUPPLEMENTAL RESOLUTION TO THE
MASTER RESOLUTION AUTHORIZING THE ISSUANCE,
SALE, AND DELIVERY OF BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING
SYSTEM BONDS, AND APPROVING AND AUTHORIZING
INSTRUMENTS AND PROCEDURES RELATING THERETO**

WHEREAS, on February 14, 1991, the Board adopted the First Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System and amended such resolution on October 8, 1993 (referred to herein as the "Master Resolution"); and

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

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

WHEREAS, the Board, has previously adopted the First, Second, and Third Supplemental Resolutions to the Master Resolution authorizing Parity Debt thereunder; and

WHEREAS, the Board has determined to authorize the issuance of Parity Debt in the form of long term fixed rate bonds (i) to provide permanent financing for the facilities and improvements financed with the proceeds of some of its outstanding Revenue Financing System Commercial Paper Notes, Series A (the "Refunded Notes") by refunding such Refunded Notes; (ii) to finance the cost of those improvements approved by the Board which are not to be financed on an interim basis; and (iii) to refund a portion of the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 1991A and Series 1991B (the "Refunded Bonds") (the Refunded Notes and the Refunded Bonds are hereinafter collectively referred to as the "Refunded Obligations"); and

WHEREAS, the Board hereby determines and deems it necessary to authorize the issuance of Parity Debt pursuant to this Fourth Supplement to the Master Resolution for such purposes ; and

WHEREAS, the bonds (the "Bonds") authorized to be issued by this Fourth Supplement are to be issued and delivered pursuant to Chapter 55, Texas Education Code, Vernon's Ann. Tex. Civ. St. Article 717q, and other applicable laws, including Vernon's Ann. Tex. Civ. St. Article 717k insofar as it may be required in connection with the refunding of the Refunded Obligations and the Escrow Agreements herein authorized.

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

Section 1. DEFINITIONS. In addition to the definitions set forth in the preamble of this Fourth Supplement, the terms used in this Fourth Supplement (except in the Form of Bonds) and not otherwise defined shall have the meanings given in the Master Resolution or in Exhibit "A" to this Fourth Supplement attached hereto and made a part hereof.

Section 2. AMOUNT, PURPOSE, AND DESIGNATION OF THE BONDS. The Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1996-__", are hereby authorized to be issued and delivered in two series designated as "Series 1996-A" and "Series 1996-B". The Series 1996-A Bonds shall be issued in the maximum aggregate principal amount of \$_____, FOR THE PURPOSE OF (i) ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING THE PROPERTY AND FACILITIES OF THE MEMBERS OF THE REVENUE FINANCING SYSTEM TO BE CONSTRUCTED PURSUANT TO SECTION 55.1714 OF THE TEXAS EDUCATION CODE; and the Series 1996-B Bonds shall be issued in the maximum aggregate principal amount of \$_____ FOR THE PURPOSE OF (i) REFUNDING \$106,855,000 IN AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES, SERIES A; (ii) REFUNDING UP TO A MAXIMUM AMOUNT OF \$_____ OF THE OUTSTANDING BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM REFUNDING BONDS, SERIES 1991A MATURING IN THE YEARS ____ THROUGH ____ AND UP TO A MAXIMUM AMOUNT OF \$_____ OF THE OUTSTANDING BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM REFUNDING BONDS, SERIES 1991B MATURING IN THE YEARS ____ THROUGH ____ (COLLECTIVELY, THE "REFUNDED BONDS"); AND (iii) ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING THE PROPERTY AND FACILITIES OF THE MEMBERS OF THE REVENUE FINANCING SYSTEM; AND PAYING THE COSTS RELATED THERETO.

The Bonds, herein authorized, unless otherwise indicated, are hereinafter referred to as the "Bonds", which may be in the form of either Current Interest Bonds or Capital Appreciation Bonds as provided in Section 6.

Section 3. DATE, DENOMINATIONS, NUMBERS, MATURITIES AND TERMS OF BONDS. (a) Terms of Bonds. For each Series of Bonds, there shall initially be issued, sold, and delivered hereunder fully registered bonds, without interest coupons, in the form of Current Interest Bonds or Capital Appreciation Bonds, numbered consecutively for each Series of Bonds from R-1 upward, in the case of Current Interest Bonds and CR-1 upward, in the case of Capital Appreciation Bonds, payable to the respective initial registered owners thereof, or to the registered assignee or assignees of said bonds or any portion or portions thereof (in each case, the "Registered Owner"), in the denomination of \$5,000 or any integral multiple thereof with respect to Current Interest Bonds

and in the denomination of \$5,000 in Maturity Amount or any integral multiple thereof with respect to Capital Appreciation Bonds (an "Authorized Denomination"), maturing not later than August 15, 2017, serially or otherwise on the dates, in the years and in the principal amounts, respectively, and dated, all as set forth in the Bond Purchase Contract relating to the Bonds.

(b) **Board Representative's Certificate.** As authorized by Vernon's Ann. Tex. Civ. St. Article 717q, as amended, the Board Representative is hereby authorized, appointed, and designated to act on behalf of the Board in selling and delivering each Series of Bonds and carrying out the other procedures specified in this Fourth Supplement, including determining and fixing the date of each Series of Bonds, any additional designation or title by which the Bonds of a Series shall be known, the price at which the Bonds of each Series will be sold, the years in which the Bonds of each Series will mature, the principal amount to mature in each of such years, the aggregate principal amount of Current Interest Bonds and Capital Appreciation Bonds of each Series and the aggregate principal amount of the Bonds of each Series, the rate of interest to be borne by each such maturity, the interest payment periods, the dates, price, and terms upon and at which the Bonds of each Series shall be subject to redemption prior to maturity at the option of the Board, as well as any mandatory sinking fund redemption provisions, and all other matters relating to the issuance, sale, and delivery of the Bonds of each Series, and the refunding of the Refunded Obligations, all of which shall be specified in a certificate of the Board Representative delivered to the Executive Secretary of the Board (the "Board Representative's Certificate"); provided that (i) the price to be paid for a Series of Bonds shall not be less than 95% of the aggregate original principal amount thereof plus accrued interest thereon from its date to its delivery, (ii) none of the Bonds shall bear interest at a rate greater than 10% per annum or in excess of the Maximum Rate allowed by law, and (iii) Bonds shall be issued to refund the Refunded Bonds only if the refunding results in a present value debt service savings of at least 3.5%. In establishing the aggregate principal amount of the Series 1996-B Bonds, the Board Representative shall establish an amount, not to exceed the amount authorized in Section 2, sufficient to provide for the refunding of the maximum amount of the Refunded Bonds that will result in a reduction in the aggregate amount of principal and interest which otherwise would be payable from the Pledged Revenues with respect to the Refunded Bonds, both on an actual and a present value basis of at least 3.5%. The amount of savings to be realized from refunding the Refunded Bonds shall be shown in the Board Representative's Certificate relating to such Bonds. It is further provided, however, that, notwithstanding the foregoing provisions, a Series of Bonds shall not be delivered unless prior to delivery, the Series of Bonds has been rated by a nationally recognized rating agency for municipal securities in one of the four highest rating categories for long term obligations, as required by Vernon's Ann. Tex. Civ. St. Article 717q, as amended. Each Board Representative's Certificate is hereby incorporated in and made a part of this Fourth Supplement and shall be filed in the minutes of the Board as a part of this Fourth Supplement.

(c) **Sale of Bonds.** It is hereby found and determined to be in the best interests of the Financing System for the Bonds to be issued under this Fourth Supplement to be sold through a negotiated sale pursuant to the procedures set forth herein. Lehman Brothers is hereby designated the senior managing underwriter for the Bonds. The Board Representative shall select such additional investment banking firms as he or she deems appropriate to assure that the Bonds are sold on the most advantageous terms to the Financing System. The Board Representative, acting for and

on behalf of the Board, is authorized to enter into and carry out a Bond Purchase Contract with the Underwriter for the Bonds at such price, with and subject to such terms as determined by the Board Representative pursuant to Section 3(b) above. The Bond Purchase Contract shall be substantially in the form and substance submitted to the Board at the meeting at which this Fourth Supplement is adopted with such changes as are acceptable to the Board Representative, including those covered by subsection (e) below.

(d) Official Statement. The draft Preliminary Official Statement relating to the Bonds submitted to the Board at the meeting at which this Fourth Supplement is adopted is hereby approved and the Board Representative is authorized to approve any changes to said document and to authorize its distribution by the Underwriter to prospective purchasers of the Bonds. The Board Representative is further authorized, for and on behalf of the Board, to approve the Preliminary Official Statement and the Official Statement, and any supplements thereto, relating to the Bonds and referred to in the Bond Purchase Contract.

(e) Continuing Disclosure. In recognition of the revisions to Securities and Exchange Commission Rule 15c2-12 (the "Rule"), the Board makes the following undertakings.

(i) Annual Reports. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year ending in or after 1996, financial information and operating data with respect to The University of Texas System of the general type included under the captions "Annual Debt Service Requirements", "Financial Management of The University of Texas System" and "General Description of The University of Texas System - Enrollment" in the Official Statement and in Appendix C of the Official Statement. Any financial statements so to be provided shall be (1) prepared in accordance with generally accepted accounting principles and (2) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the Board shall provide unaudited financial statements by the required time, and will provide audited financial statements for the applicable Fiscal Year to each NRMSIR and any SID, when and if audited financial statements become available.

If the Board changes the Fiscal Year, the Board will notify each NRMSIR and any SID of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(ii) Material Event Notices. The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds;
and
- K. Rating changes.

The Board shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with this Section of this Fourth Supplement by the time required.

(iii) Limitations, Disclaimers, and Amendments. The Board shall be obligated to observe and perform the covenants specified in this Section 3(e) for so long as, but only for so long as, the Board remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Board in any event will give the notice required by this Fourth Supplement of any Bond calls and defeasance that cause the Bonds to be no longer outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Board's financial results, condition, or prospects relating to the Financing System or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Board does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE BOARD BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE BOARD, WHETHER NEGLIGENT OR WITHOUT

FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Board in observing or performing its obligations under this Section shall constitute a breach of or default under this Fourth Supplement for purposes of any other provision of this Fourth Supplement.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Board under federal and state securities laws.

The provisions of this Section may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (A) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Fourth Supplement that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (B) a Person that is unaffiliated with the Board (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the Board so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

(f) In General. The Bonds of each Series (i) may and shall be redeemed prior to the respective scheduled maturity dates, (ii) may be assigned and transferred, (iii) may be exchanged for other Bonds of such Series, (iv) shall have the characteristics, and (v) shall be signed and sealed, and the principal of and interest on the Bonds shall be payable, all as provided, and in the manner required or indicated, in the FORM OF BONDS set forth in Exhibit B to this Fourth Supplement and as determined by the Board Representative as provided herein, with such changes and additions as are required to be consistent with the terms and provisions shown in the Board Representative's Certificate relating to a Series of Bonds.

Section 4. INTEREST. The Current Interest Bonds of each Series of Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF BONDS and in the Board Representative's Certificate to their respective dates of maturity at the rates set forth in the Board Representative's Certificate.

The Capital Appreciation Bonds of each Series of Bonds shall bear interest from the Issuance Date for such Series of Bonds, calculated on the basis of a 360-day year composed of twelve 30-day months (subject to rounding to the Compounded Amounts thereof), compounded semiannually on the dates set forth in the Board Representative's Certificate (the "Compounding Dates") commencing on the date set forth in the Board Representative's Certificate, and payable, together with the principal amount thereof, in the manner provided in the FORM OF BONDS at the rates set forth in the Board Representative's Certificate. Attached to the Board Representative's Certificate if Capital Appreciation Bonds are to be issued shall be an Exhibit (the "Compounded Amount Table") which will set forth the rounded original principal amounts at the Issuance Date for the Capital Appreciation Bonds and the Compounded Amounts and Maturity Amounts thereof (per \$5,000 Maturity Amount) as of each Compounding Date, commencing the date set forth in the Board Representative's Certificate, and continuing until the final maturity of such Capital Appreciation Bonds. The Compounded Amount with respect to any date other than a Compounding Date is the amount set forth on the Compounded Amount Table with respect to the last preceding Compounding Date, plus the portion of the difference between such amount and the amount set forth on the Compounded Amount Table with respect to the next succeeding Compounding Date that the number of days (based on 30-day months) from such last preceding Compounding Date to the date for which such determination is being calculated bears to the total number of days (based on 30-day months) from such last preceding Compounding Date to the next succeeding Compounding Date.

Section 5. REGISTRATION, TRANSFER, AND EXCHANGE; AUTHENTICATION; BOOK-ENTRY ONLY SYSTEM. (a) Paying Agent/Registrar. Texas Commerce Bank National Association, is hereby appointed the Paying Agent/Registrar for each Series of Bonds. The Board Representative is authorized to enter into and carry out a Paying Agent/Registrar Agreement with the Paying Agent/Registrar with respect to the Bonds in substantially the form submitted to the Board.

(b) Registration Books. The Board shall keep books or records for the registration of the transfer, exchange, and replacement of each Series of Bonds (the "Registration Books"), and the Board hereby designates the Paying Agent/Registrar as the initial registrar and transfer agent to keep such books or records and make such registrations of transfers, exchanges, and replacements under such reasonable regulations as the Board may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, exchanges, and replacements as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. The Board, if not the Paying Agent/Registrar, shall have

the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity.

(c) Ownership of Bonds. The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Fourth Supplement, whether or not such Bond shall be overdue, and, to the extent permitted by law, the Board and the Paying Agent/Registrar shall not be affected by any notice to the contrary; and payment of, or on account of, the principal of, premium, if any, and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

(d) Payment of Bonds and Interest. The Board hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Fourth Supplement. The Paying Agent/Registrar shall keep proper records of all payments made by the Board and the Paying Agent/Registrar with respect to the Bonds.

(e) Authentication. The Bonds of each Series initially issued and delivered pursuant to this Fourth Supplement shall be authenticated by the Paying Agent by execution of the Paying Agent's Authentication Certificate unless they have been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas, and on each substitute Bond issued in exchange for any Bond or Bonds issued under this Fourth Supplement the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE. The Authentication Certificate shall be in the form set forth in the FORM OF BONDS.

(f) Transfer, Exchange, or Replacement. Each Bond issued and delivered pursuant to this Fourth Supplement, to the extent of the unpaid or unredeemed principal amount or Maturity Amount thereof, may, upon surrender of such Bond at the corporate trust office of the Paying Agent/Registrar, together with a written request therefor duly executed by the registered owner or the assignee or assignees thereof, or its or their duly authorized attorneys or representatives, with guarantee of signatures satisfactory to the Paying Agent/Registrar, may, at the option of the registered owner or such assignee or assignees, as appropriate, be exchanged for fully registered bonds, without interest coupons, in the appropriate form prescribed in the FORM OF BONDS set forth in this Fourth Supplement, in the denomination of any Authorized Denominations (subject to the requirement hereinafter stated that each substitute Bond shall be of the same Series and have a single stated maturity date), as requested in writing by such registered owner or such assignee or assignees, in an aggregate principal amount equal to the unpaid or unredeemed principal amount or Maturity Amount, of any Bond or Bonds so surrendered, and payable to the appropriate registered owner, assignee, or assignees, as the case may be. If a portion of any Bond shall be redeemed prior to its scheduled maturity as provided herein, a substitute Bond or Bonds having the same Series designation and maturity date, bearing interest at the same rate, and payable in the same manner, in

Authorized Denominations at the request of the registered owner, and in aggregate principal amount or Maturity Amount equal to the unredeemed portion thereof, will be issued to the registered owner upon surrender thereof for cancellation. If any Bond or portion thereof is assigned and transferred, each Bond issued in exchange therefor shall have the same Series designation and maturity date and bear interest at the same rate and payable in the same manner as the Bond for which it is being exchanged. Each substitute Bond of each Series shall bear a letter and/or number to distinguish it from each other Bond of such Series. The Paying Agent/Registrar shall exchange or replace Bonds as provided herein, and each fully registered bond delivered in exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Fourth Supplement shall constitute one of the Bonds for all purposes of this Fourth Supplement, and may again be exchanged or replaced. On each substitute Bond issued in exchange for or replacement of any Bond or Bonds issued under this Fourth Supplement there shall be printed an Authentication Certificate, in the form set forth in Exhibit B to this Fourth Supplement. An authorized representative of the Paying Agent shall, before the delivery of any such Bond, date and manually sign the Authentication Certificate, and, except as provided in (e) above, no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all Bonds surrendered for transfer, exchange, or replacement. No additional orders or resolutions need be passed or adopted by the Board or any other body or person so as to accomplish the foregoing transfer, exchange, or replacement of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and said Bonds shall be in typed or printed form as determined by the Board Representative. Pursuant to Vernon's Ann. Tex. Civ. St. Art. 717k-6, and particularly Section 6 thereof, the duty of transfer, exchange, or replacement of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of the above Paying Agent/Registrar's Authentication Certificate, the exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which were originally issued pursuant to this Fourth Supplement. The Board shall pay the Paying Agent/Registrar's standard or customary fees and charges, if any, for transferring, and exchanging any Bond or any portion thereof, but the one requesting any such transfer and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, exchange, or replacement of Bonds or any portion thereof (i) with respect to a Current Interest Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following interest payment date, or, (ii) with respect to any Bond or portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. To the extent possible, any new Bond issued in an exchange, replacement, or transfer of a Bond will be delivered to the registered owner or assignee of the registered owner not more than three business days after the receipt of the Bonds to be cancelled and the written request as described above.

(g) Substitute Paying Agent/Registrar. The Board covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the Board will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Fourth Supplement. The Board reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 120 days

written notice to the Paying Agent/Registrar, to be effective not later than 60 days prior to the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Fourth Supplement. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the Board. Upon any change in the Paying Agent/Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Fourth Supplement, and a certified copy of this Fourth Supplement shall be delivered to each Paying Agent/Registrar.

(h) Book-Entry Only System. The Bonds of each Series issued in exchange for the Bonds initially issued shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and except as provided in subsection (i) hereof, all of the Outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Board, the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any person on behalf of whom such a DTC Participant holds an interest on the Bonds. Without limiting the immediately preceding sentence, the Board, the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Bondholder, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a Bondholder, as shown in the Registration Books of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Fourth Supplement to the contrary but to the extent permitted by law, the Board, the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective owners, as shown in the Registration Books as provided in this Fourth Supplement, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Board's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an owner, as shown in the Registration Books, shall

receive a Bond certificate evidencing the obligation of the Board to make payments of principal, premium, if any, and interest pursuant to this Fourth Supplement. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Fourth Supplement with respect to interest checks being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Fourth Supplement shall refer to such new nominee of DTC.

(i) Successor Securities Depository; Transfers Outside Book-Entry Only System. In the event that the Board, the Paying Agent/Registrar determines that DTC is incapable of discharging its responsibilities described herein and in the representation letter of the Board to DTC or DTC determines to discontinue providing its services with respect to a Series of Bonds, the Board shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds of such Series to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds of such Series to DTC Participants having Bonds of such Series credited to their DTC accounts. In such event, the Bonds of such Series shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Bondholders transferring or exchanging such Bonds shall designate, in accordance with the provisions of this Fourth Supplement.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Fourth Supplement to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the Board to DTC.

(k) Notices of Redemption and Defeasance. (i) In addition to the Notice of Redemption set forth in the FORM OF BONDS, the Authority shall give notice of redemption or defeasance to the Paying Agent/Registrar at least 45 days prior to a redemption date in the case of a redemption and on the defeasance date in the case of a defeasance and the Paying Agent/Registrar shall give notice of redemption or of defeasance of Bonds by mail, first-class postage prepaid at least thirty (30) days prior to a redemption date and within thirty (30) days after a defeasance date to each registered securities depository and to any national information service that disseminates such notices. In addition, in the event of a redemption caused by an advance refunding of the Bonds, the Paying Agent/Registrar shall send a second notice of redemption to the persons specified in the immediately preceding sentence at least thirty (30) days but not more than ninety (90) days prior to the actual redemption date. Any notice sent to the registered securities depositories or such national information services shall be sent so that they are received at least two (2) days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent the Bonds in for redemption sixty (60) days after the redemption date.

(ii) Each Notice of Redemption or Defeasance, whether required in the FORM OF BONDS or in this Section, shall contain a description of the Bonds to be redeemed or defeased including the complete name of the Bonds, the Series, the date of issue, the interest rate, the maturity date, the CUSIP number, the certificate numbers, the amounts called of each certificate, the publication and mailing date for the notice, the date of redemption or defeasance, the redemption price, if any, the name of the Paying Agent/Registrar and the address at which the Bonds may be redeemed or paid, including a contact person and telephone number.

(iii) All redemption payments made by the Paying Agent/Registrar to the registered owners of the Bonds shall include a CUSIP number relating to each amount paid to such registered owner.

Section 6. FORM OF BONDS. The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas, if needed with respect to the Bonds of each Series initially issued and delivered pursuant to this Fourth Supplement, shall be, respectively, substantially as set forth in Exhibit B, with such appropriate variations, omissions, or insertions as are permitted or required by this Fourth Supplement and any Bond Purchase Contract.

Section 7. ESTABLISHMENT OF FINANCING SYSTEM AND ISSUANCE OF PARITY OBLIGATIONS. By adoption of the Master Resolution, the Board has established The University of Texas System Revenue Financing System for the purpose of providing a financing structure for revenue supported indebtedness of components of The University of Texas System which are from time to time included as Members of the Financing System. The Master Resolution is intended to establish a master plan under which revenue supported debt of the Financing System can be incurred. This Fourth Supplement provides for the authorization, issuance, sale, delivery, form, characteristics, provisions of payment and redemption, and security of the Bonds as Parity Debt. The Master Resolution is incorporated herein by reference and as such made a part hereof for all purposes, except to the extent modified and supplemented hereby, and the Bonds are hereby declared to be Parity Debt under the Master Resolution. As required by Section 5(a) of the Master Resolution, the Board hereby determines that upon the issuance of the Bonds it will have sufficient funds to meet the financial obligations of The University of Texas System, including sufficient Pledged Revenues to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System and that the Members on whose behalf the Bonds are to be issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

Section 8. SECURITY AND PAYMENTS. The Bonds are special obligations of the Board payable from and secured solely by the Pledged Revenues pursuant to the Master Resolution and this Fourth Supplement. The Pledged Revenues are hereby pledged, subject to the liens securing the Prior Encumbered Obligations, to the payment of the principal of, premium, if any, and interest on the Bonds as the same shall become due and payable. The Board agrees to pay the principal of, premium, if any, and the interest on the Bonds when due, whether by reason of maturity or redemption.

Section 9. PAYMENTS. Semiannually on or before each principal or interest payment date while any of the Bonds are outstanding and unpaid, commencing on the first interest payment date for each respective Series of Bonds as provided in the Board Representative's Certificate, the Board shall make available to the Paying Agent/Registrar, money sufficient to pay such interest on and such principal of the Bonds as will accrue or mature, or be subject to mandatory redemption prior to maturity, on such principal, redemption, or interest payment date. The Paying Agent/Registrar shall cancel all paid Bonds and shall furnish the Board with an appropriate certificate of cancellation.

Section 10. DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS.

(a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same Series, principal amount, maturity, and interest rate, and in the same form, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the Board and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the Board and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) Payment in Lieu of Replacement. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the Board may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the Board whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Fourth Supplement equally and proportionately with any and all other Bonds duly issued under this Fourth Supplement.

(e) Authority for Issuing Replacement Bonds. In accordance with Section 6 of Vernon's Ann. Tex. Civ. St. Art. 717k-6, this Section shall constitute authority for the issuance of any such replacement bond without the necessity of further action by the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Paying

Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 5(f) of this Fourth Supplement for Bonds issued in exchange and replacement for other Bonds.

Section 11. AMENDMENT OF SUPPLEMENT. (a) Amendments Without Consent. This Fourth Supplement and the rights and obligations of the Board and of the owners of the Bonds may be modified or amended at any time without notice to or the consent of any owner of the Bonds or any other Parity Debt, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the Board contained in this Fourth Supplement, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in this Fourth Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Fourth Supplement, upon receipt by the Board of an approving opinion of Bond Counsel, that the same is needed for such purpose, and will more clearly express the intent of this Fourth Supplement;

(iii) To supplement the security for the Bonds, replace or provide additional credit facilities, or change the form of the Bonds or make such other changes in the provisions hereof as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Bonds; or

(iv) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Bonds, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the Outstanding Bonds.

(b) Amendments With Consent. Subject to the other provisions of this Fourth Supplement, the owners of Outstanding Bonds aggregating 51 percent in Outstanding Principal Amount shall have the right from time to time to approve any amendment, other than amendments described in Subsection (a) of this Section, to this Fourth Supplement which may be deemed necessary or desirable by the Board, provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the Outstanding Bonds, the amendment of the terms and conditions in this Fourth Supplement or in the Bonds so as to:

- (1) Make any change in the maturity of the Outstanding Bonds;
- (2) Reduce the rate of interest borne by Outstanding Bonds;
- (3) Reduce the amount of the principal payable on Outstanding Bonds;

- (4) Modify the terms of payment of principal of or interest on the Outstanding Bonds, or impose any conditions with respect to such payment;
- (5) Affect the rights of the owners of less than all Bonds then Outstanding; or
- (6) Change the minimum percentage of the Outstanding Principal Amount of Bonds necessary for consent to such amendment.

(c) Notice. If at any time the Board shall desire to amend this Fourth Supplement other than pursuant to (a) above, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal of general circulation in The City of New York, New York once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Paying Agent/Registrar for inspection by all owners of Bonds. Such publication is not required, however, if the Board gives or causes to be given such notice in writing to each owner of Bonds.

(d) Receipt of Consents. Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice of the proposed amendment the Board shall receive an instrument or instruments executed by all of the owners or the owners of at least 51 percent in Outstanding Principal Amount of Bonds, as appropriate, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the Board may adopt the amendatory resolution in substantially the same form.

(e) Effect of Amendments. Upon the adoption by the Board of any resolution to amend this Fourth Supplement pursuant to the provisions of this Section, this Fourth Supplement shall be deemed to be amended in accordance with the amendatory resolution, and the respective rights, duties, and obligations of the Board and all the owners of then Outstanding Bonds and all future Bonds shall thereafter be determined, exercised, and enforced under the Resolution and this Fourth Supplement, as amended.

(f) Consent Irrevocable. Any consent given by any owner of Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication or other service of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar and the Board, but such revocation shall not be effective if the owners of 51 percent in Outstanding Principal Amount of Bonds, prior to the attempted revocation, consented to and approved the amendment.

(g) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the registration books kept by the Paying Agent/Registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

Section 12. COVENANTS REGARDING TAX-EXEMPTION. The Board covenants to refrain from any action which would adversely affect, or to take such action to assure, the treatment of the Bonds as obligations described in section 103 of the Code, the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Board covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Bonds (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds are so used, that amounts, whether or not received by the Board, with respect to such private business use, do not, under the terms of this Fourth Supplement or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in subsection (a) hereof exceeds 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(1) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(g) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code .

For purposes of the foregoing (a) and (b), the Board understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds.) It is the understanding of the Board that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify, or expand provisions of the Code, as applicable to the Bonds, the Board will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the Board agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the Board hereby authorizes and directs the Board Representative to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the Board, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

In order to facilitate compliance with the above covenant (h), a "Rebate Fund" is hereby established by the Board for the sole benefit of the United States of America, and such Fund shall

not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

Section 13. FOURTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY. In consideration of the acceptance of the Bonds, the issuance of which is authorized hereunder, by those who shall hold the same from time to time, this Fourth Supplement shall be deemed to be and shall constitute a contract between the Board and the Holders from time to time of the Bonds and the pledge made in this Fourth Supplement by the Board and the covenants and agreements set forth in this Fourth Supplement to be performed by the Board shall be for the equal and proportionate benefit, security, and protection of all Holders, without preference, priority, or distinction as to security or otherwise of any of the Bonds authorized hereunder over any of the others by reason of time of issuance, sale, or maturity thereof or otherwise for any cause whatsoever, except as expressly provided in or permitted by this Fourth Supplement.

Section 14. SEVERABILITY OF INVALID PROVISIONS. If any one or more of the covenants, agreements, or provisions herein contained shall be held contrary to any express provisions of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements, or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements, or provisions and shall in no way affect the validity of any of the other provisions hereof or of the Bonds issued hereunder.

Section 15. PAYMENT AND PERFORMANCE ON BUSINESS DAYS. Except as provided to the contrary in the Form of Bonds, whenever under the terms of this Fourth Supplement or the Bonds, the performance date of any provision hereof or thereof, including the payment of principal of or interest on the Bonds, shall occur on a day other than a Business Day, then the performance thereof, including the payment of principal of and interest on the Bonds, need not be made on such day but may be performed or paid, as the case may be, on the next succeeding Business Day with the same force and effect as if made on the date of performance or payment.

Section 16. LIMITATION OF BENEFITS WITH RESPECT TO THE FOURTH SUPPLEMENT. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Fourth Supplement or the Bonds is intended or should be construed to confer upon or give to any person other than the Board, the Holders, the Paying Agent/Registrar, any legal or equitable right, remedy, or claim under or by reason of or in respect to this Fourth Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Fourth Supplement and all of the covenants, conditions, stipulations, promises, agreements, and provisions hereof are intended to be and shall be for and inure to the sole and exclusive benefit of the Board, the Holders, the Paying Agent/Registrar as herein and therein provided.

Section 17. CUSTODY, APPROVAL, BOND COUNSEL'S OPINION, CUSIP NUMBERS, PREAMBLE AND INSURANCE. The Board Representative is hereby authorized to have control of each Series of Bonds issued hereunder and all necessary records and proceedings

pertaining to such Series of Bonds pending their delivery and approval by the Attorney General of the State of Texas and registration by the Comptroller of Public Accounts and to cause an appropriate legend reflecting such approval and registration to appear on the Bonds of such Series and the substitute Bonds of such Series. The approving legal opinion of the Board's Bond Counsel and the assigned CUSIP numbers may, at the option of the Board Representative, be printed on the Bonds and on any Bonds issued and delivered in exchange or replacement of any Bond, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. The preamble to the Fourth Supplement is hereby adopted and made a part of this Fourth Supplement for all purposes. If insurance is obtained on any of the Bonds, the Bonds shall bear, as appropriate and applicable, a legend concerning insurance as provided by the Insurer.

Section 18. REFUNDING OF REFUNDED OBLIGATIONS; ESCROW AGREEMENTS. That concurrently with the delivery of the Series of 1996-B Bonds, the Board Representative shall cause to be deposited an amount from the proceeds from the sale of the Series 1996-B Bonds with Texas Commerce Bank National Association, as Escrow Agent, sufficient to provide for the refunding of the respective Refunded Obligations in accordance with Section 7A of Vernon's Ann. Tex. Civ. St. Article 717k, as amended. The Board Representative is hereby authorized, for and on behalf of the Board, to execute an Escrow Agreement to accomplish such purpose, in substantially the form and substance submitted to the Board at the meeting at which this Fourth Supplement is adopted.

Section 19. REDEMPTION OF REFUNDED BONDS. The Board hereby determines that the Refunded Bonds shall be called for redemption and they are hereby called for redemption on the first redemption date following the execution of the Bond Purchase Contract with respect to which notice of redemption can be given and at the redemption price determined in accordance with the provisions of the resolution authorizing their issuance. The Board Representative shall take such actions as are necessary to cause the required notice of such redemptions to be given.

Section 20. FURTHER PROCEDURES; OFFICIAL STATEMENT. The Executive Committee, each member of the Executive Committee, the Board Representative, and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the corporate seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Fourth Supplement, the Bonds, the Escrow Agreements, the redemption prior to maturity of the Refunded Obligations, the sale and delivery of such Series of Bonds and fixing all details in connection therewith, any Bond Purchase Contract entered into in connection with any Series of Bonds, and to approve any Official Statement, or supplements thereto, in connection with any Series of Bonds. The draft Preliminary Official Statement relating to the initial Series of Bonds submitted to the Board at the meeting at which this Fourth Supplement is adopted is hereby approved and the Board Representative is authorized to approve any changes to said document and to authorize its distribution by the Underwriter to prospective purchasers of that Series of Bonds. In case any officer whose signature shall appear on the Bonds shall cease to be such officer before the delivery

of the Bonds, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Section 21. DTC LETTER OF REPRESENTATION. The Board Representative is authorized and directed to enter into a Letter of Representation with DTC with respect to each Series of Bonds to implement the Book-Entry Only System of Bond Registration.

Section 22. REPEAL OF CONFLICTING RESOLUTIONS. All resolutions and all parts of any resolutions which are in conflict or inconsistent with this Fourth Supplement are hereby repealed and shall be of no further force or effect to the extent of such conflict or inconsistency. In addition, the authority to issue any additional Series of Bonds under the Third Supplemental Resolution in addition to the Board's Revenue Financing System Bonds, Series 1995-A is hereby repealed and the provisions of the Third Supplemental Resolution authorizing the issuance of such additional Series of Bonds shall have no further force or effect.

Section 23. PUBLIC NOTICE. It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this Fourth Supplement was adopted; that this Fourth Supplement would be introduced and considered for adoption at said meeting; that said meeting was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

ADOPTED AND APPROVED this _____.

Chairman, Board of Regents of
The University of Texas System

ATTEST:

Executive Secretary, Board of Regents of
The University of Texas System

EXHIBIT A DEFINITIONS

As used in this Fourth Supplement the following terms and expressions shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

The term "Acts" shall mean, collectively, Articles 717k and 717q, V.A.T.C.S., as amended, and Chapter 55, Texas Education Code, as amended.

The term "Authorized Denominations" shall mean Authorized Denominations as defined in Section 2 of this Fourth Supplement.

The terms "Board" and "Issuer" shall mean the Board of Regents of The University of Texas System or any successor thereto.

The term "Board Representative" shall mean one or more of the following officers or employees of The University of Texas System, to wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, and the Director of Finance, or such other officer or employee of The University of Texas System authorized by the Board to act as a Board Representative.

The term "Board Representative's Certificate" shall mean the certificate executed by the Board Representative in connection with each Series of Bonds which establishes the terms of the Series of Bonds pursuant to Section 3 of this Fourth Supplement.

The term "Bonds" shall mean collectively each Series of Bonds issued pursuant to this Fourth Supplement, and all substitute bonds exchanged therefor, and all other substitute and replacement bonds issued pursuant to this Fourth Supplement; and the term "Bond" means any of the Bonds.

The term "Bond Purchase Contract" shall mean the agreement to purchase one or more of the Series of Bonds authorized by this Fourth Supplement.

The term "Business Day" shall mean any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in The City of New York, New York or in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close.

The term "Capital Appreciation Bonds" shall mean the Bonds of each Series of the Bonds on which no interest is paid prior to maturity, maturing variously in each of the years and in the aggregate principal amount as set forth in the Bond Purchase Contract.

The term "Code" means the Internal Revenue Code of 1986, as amended.

The term "Compounded Amount" shall mean, with respect to a Capital Appreciation Bond, as of any particular date of calculation, the original principal amount thereof, plus all interest accrued and compounded to the particular date of calculation, as determined in accordance with Section 4 of this Fourth Supplement and the Compounded Amount Table relating to such Bonds.

The term "Compounded Amount Table" shall mean, with respect to the Capital Appreciation Bonds of a Series of Bonds, the table attached as an Exhibit to the Bond Purchase Contract relating to such Series of Bonds which shows the Compounded Amounts per \$5,000 Maturity Amount on the Compounding Dates for each maturity to its Stated Maturity.

The term "Compounding Dates" shall mean Compounding Dates as defined in Section 4 of this Fourth Supplement.

The term "Current Interest Bonds" shall mean the Bonds of each Series of the Bonds paying current interest and maturing in each of the years and in the aggregate principal amounts set forth in the Bond Purchase Contract.

The term "DTC" shall mean The Depository Trust Company, New York, New York, or any successor securities depository.

The term "DTC Participant" shall mean securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

The term "Fourth Supplement" shall mean this Fourth Supplement Resolution to the Master Resolution authorizing the Bonds.

The term "Issuance Date" shall mean the date of delivery of each Series of Bonds to the initial purchaser or purchasers thereof against payment therefor.

The term "MSRB" shall mean the Municipal Securities Rulemaking Board.

The term "Master Resolution" shall mean the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System adopted by the Board on February 14, 1991, as amended on October 8, 1993.

The term "Maturity" shall mean the date on which the principal of a Bond becomes due and payable as therein and herein provided, whether at Stated Maturity, by redemption, declaration of acceleration, or otherwise.

The term "Maturity Amount" shall mean the Compounded Amount of a Capital Appreciation Bond due on its Stated Maturity.

The term "NRMSIR" shall mean each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

The term "Paying Agent/Registrar" shall mean the paying agent and registrar appointed pursuant to Section 5 of this Fourth Supplement, or any successor to such agent.

The term "Record Date" shall mean, with respect to the Bonds, the last calendar day of each month preceding an interest payment date.

The term "Refunded Bonds" shall mean the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 1991A and the Board of Regents of The University of Texas System Revenue Financing System Refunding Bonds, Series 1991B to be refunded with the proceeds of the Series 1996-B Bonds.

The term "Refunded Notes" shall mean the Board of Regents of The University of Texas System Revenue Financing Commercial Paper Notes, Series A to be refunded with the proceeds of the Series 1996-B Bonds.

The term "Refunded Obligations" shall mean, collectively, the Refunded Bonds and the Refunded Notes.

The term "Registration Books" shall mean the books or records relating to the registration, payment, and transfer or exchange of the Bonds maintained by the Paying Agent/Registrar pursuant to Section 5 of this Fourth Supplement.

The term "SEC" shall mean the United States Securities and Exchange Commission.

The term "SID" shall mean any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

The term "Stated Maturity", shall mean, when used with respect to the Bonds, the scheduled maturity or mandatory sinking fund redemption of the Bonds.

The term "Underwriter" shall mean the underwriters designated pursuant to Section 3 of this Fourth Supplement for each Series of Bonds sold pursuant to a negotiated sale.

EXHIBIT B
FORM OF BONDS

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
REVENUE FINANCING SYSTEM BONDS
SERIES 1996-__

[FORM OF FIRST TWO PARAGRAPHS OF CURRENT INTEREST BONDS]

NO. R-____ PRINCIPAL AMOUNT \$ _____

INTEREST RATE MATURITY DATE BOND DATE CUSIP NO.
_____% _____ _____ _____

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____ DOLLARS

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Issuer"), being an agency and political subdivision of the State of Texas, hereby promises to pay to the Registered Owner specified above or the registered assignee hereof (either being hereinafter called the "registered owner") the principal amount specified above and to pay interest thereon, calculated on the basis of a 360-day year composed of twelve 30-day months, from the Bond Date specified above, to the Maturity Date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; with interest being payable on _____, 199__, and semi-annually on each _____ and _____ thereafter, except that if the date of authentication of this Bond is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges, solely from funds of the Issuer

required by the resolution authorizing the issuance of the Bonds to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, at the corporate trust office of Texas Commerce Bank National Association in Dallas, Texas, which is the "Paying Agent/Registrar" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent to the registered owner hereof on each interest payment date by check, dated as of such interest payment date, and such check shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the last day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described; provided, that upon the written request of any owner of not less than \$1,000,000 in principal amount of Bonds provided to the Paying Agent/Registrar not later than the Record Date immediately preceding an interest payment date, interest due on such interest payment date shall be made by wire transfer to any designated account within the United States of America. In addition, interest may be paid by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner hereof. Any accrued interest due upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Bond for redemption and payment at the principal office of the Paying Agent/Registrar. The Issuer covenants with the registered owner of this Bond that on or before each principal payment date and interest payment date for this Bond it will make available to the Paying Agent/Registrar, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Issuer and the securities depository. Terms used herein and not otherwise defined have the meaning given in the Bond Resolution.

UNITED STATES OF AMERICA
 STATE OF TEXAS
 BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
 REVENUE FINANCING SYSTEM BONDS
 SERIES 1996-__

[FORM OF FIRST TWO PARAGRAPHS OF CAPITAL APPRECIATION BONDS]

NO. CR-____ MATURITY AMOUNT
 \$ _____

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>ISSUANCE DATE</u>	<u>CUSIP NO.</u>
_____%	_____	_____	_____

REGISTERED OWNER: _____

PRINCIPAL AMOUNT: _____ DOLLARS

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Issuer"), being an agency and political subdivision of the State of Texas, hereby promises to pay to the Registered Owner specified above or the registered assignee hereof (either being hereinafter called the "registered owner") the Maturity Amount specified above representing the original principal amount specified above and accrued and compounded interest thereon. Interest shall accrue on the original principal amount hereof from the Issuance Date at the interest rate per annum specified above (subject to rounding to the Compounded Amounts as provided in the Bond Resolution), compounded semi-annually on _____ and _____ of each year, commencing _____, 199_. For convenience of reference, a table appears on the back of this Bond showing the "Compounded Amount" of the original principal amount per \$5,000 Maturity Amount compounded semiannually at the yield shown on such table.

THE MATURITY AMOUNT OF this Bond is payable in lawful money of the United States of America, without exchange or collection charges, solely from funds of the Issuer required by the Bond Resolution to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided. The Maturity Amount or Compounded Amount of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity, as the case may be, at the corporate trust office of Texas Commerce Bank National Association in Dallas, Texas, which is the "Paying Agent/Registrar" for this Bond. The Issuer covenants with the registered owner of this Bond that on or before the Maturity Date for this Bond it will make available to the Paying Agent/Registrar, the amount

required to provide for the payment, in immediately available funds, of the Maturity Amount when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Issuer and the securities depository. Terms used herein and not otherwise defined have the meaning given in the Bond Resolution.

**[FORM OF REMAINDER OF CURRENT INTEREST BONDS
AND CAPITAL APPRECIATION BONDS]**

This Bond is one of a Series of bonds authorized in the aggregate principal amount of \$ _____ pursuant to a Fourth Supplemental Resolution to the Master Resolution adopted _____, 1996, and pursuant to the Master Resolution referred therein (collectively, the "Bond Resolution") for the purpose of (i) refunding the _____ (ii) acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities of certain Members of the Revenue Financing System, and (iii) paying the costs related thereto, [and comprised of (i) Bonds in the aggregate principal amount of \$ _____ that pay interest only at maturity (the "Capital Appreciation Bonds") and (ii) Bonds in the aggregate principal amount of \$ _____ that pay interest semiannually until maturity (the "Current Interest Bonds").] [To be conformed to purpose of Series 1996-A Bonds or Series 1996-B Bonds.]

ON _____, _____, or on any date thereafter, the Bonds of this Series scheduled to mature on _____ in each of the years _____ through _____ and on _____, _____, may be redeemed prior to their scheduled maturities, at the option of the Issuer, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Issuer (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to _____ and accrued interest to the date fixed for redemption; provided that during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

The Bonds of this issue scheduled to mature on _____, _____, are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Issuer, in part, prior to their scheduled maturity, with the particular Bonds or portions thereof to be redeemed to be selected and designated by the Issuer (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof and accrued interest to the date of redemption, on the dates, and in the principal amounts, respectively, as set forth in the following schedule:

<u>Bonds Maturing</u>	<u>principal</u>
<u>Redemption Date</u>	<u>Amount</u>

The principal amount of the Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Issuer, by the principal amount of any Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Issuer and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and cancelled by the Paying Agent/Registrar at the direction of the Issuer, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds, or (3) have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory sinking fund redemption. During any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Issuer and the securities depository.

AT LEAST 30 days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial publication, journal, or report of general circulation among securities dealers in The City of New York, New York (including, but not limited to, The Bond Buyer and The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter). Such notice also shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, not less than 30 days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th day prior to such redemption date; provided, however, that the failure to send, mail, or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and it is hereby specifically provided that the publication of such notice as required above shall be the only notice actually required in connection with or as a prerequisite to the redemption of any Bonds or portions thereof. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such written notice of redemption is published and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, payable in the same manner, in any authorized denomination at the written request of the registered owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the Issuer, all as provided in the Bond Resolution.

IF THE DATE for the payment of the principal of or interest on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in The City of New York, New York, or in the city where the principal office of the Paying Agent/Registrar is located are

authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND OR ANY PORTION OR PORTIONS HEREOF IN ANY AUTHORIZED DENOMINATION may be assigned and shall be transferred only in the Registration Books of the Issuer kept by the Paying Agent/Registrar acting in the capacity of registrar for the Bonds, upon the terms and conditions set forth in the Bond Resolution. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be transferred and registered. The form of Assignment printed or endorsed on this Bond shall be executed by the registered owner or its duly authorized attorney or representative, to evidence the assignment hereof. A new Bond or Bonds payable to such assignee or assignees (which then will be the new registered owner or owners of such new Bond or Bonds), or to the previous registered owner in the case of the assignment and transfer of only a portion of this Bond, may be delivered by the Paying Agent/Registrar in exchange for this Bond, all in the form and manner as provided in the next paragraph hereof for the exchange of other Bonds. The Issuer shall pay the Paying Agent/Registrar's fees and charges, if any, for making such transfer or exchange as provided below, but the one requesting such transfer or exchange shall pay any taxes or other governmental charges required to be paid with respect thereto. The Paying Agent/Registrar shall not be required to make transfers of registration or exchange of this Bond or any portion hereof (i) [with respect to Current Interest Bonds,] during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or, (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date. The registered owner of this Bond shall be deemed and treated by the Issuer, the Paying Agent/Registrar as the absolute owner hereof for all purposes, including payment and discharge of liability upon this Bond to the extent of such payment, and, to the extent permitted by law, the Issuer, the Paying Agent/Registrar shall not be affected by any notice to the contrary.

ALL BONDS OF THIS SERIES are issuable solely as fully registered bonds, without interest coupons, [with respect to Current Interest Bonds,] in the denomination of any integral multiple of \$5,000, [and with respect to Capital Appreciation Bonds, in the denomination of \$5,000 Maturity Amounts or any integral multiple thereof.] As provided in the Bond Resolution, this Bond, or any unredeemed portion hereof, may, at the request of the registered owner or the assignee or assignees hereof, be exchanged for a like aggregate principal amount of fully registered bonds, without interest coupons, payable to the appropriate registered owner, assignee, or assignees, as the case may be, having the same maturity date, in the same form, and bearing interest at the same rate, in any authorized denomination as requested in writing by the appropriate registered owner,

assignee, or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Resolution.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering, or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the Issuer, resigns, or otherwise ceases to act as such, the Issuer has covenanted in the Bond Resolution that it promptly will appoint a competent and legally qualified substitute therefor, and promptly will cause written notice thereof to be mailed to the registered owners of the Bonds.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; that the Series of Bonds of which this Bond is one constitute Parity Debt under the Master Resolution; and that the interest on and principal of this Bond, together with the other Bonds of this Series and the other outstanding Parity Debt are equally and ratably secured by and payable from a lien on and pledge of the Pledged Revenues, subject only to the provisions of the Prior Encumbered Obligations.

THE ISSUER has reserved the right, subject to the restrictions referred to in the Bond Resolution, (i) to issue additional Parity Debt which also may be secured by and made payable from a lien on and pledge of the aforesaid Pledged Revenues, in the same manner and to the same extent as this Bond, and (ii) to amend the provisions of the Bond Resolution under the conditions provided in the Bond Resolution.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds raised or to be raised by taxation or from any source whatsoever other than specified in the Bond Resolution.

BY BECOMING the registered owner of this Bond, the registered owner thereby acknowledges all of the terms and provisions of the Bond Resolution, agrees to be bound by such terms and provisions, acknowledges that the Bond Resolution is duly recorded and available for inspection in the official minutes and records of the Issuer, and agrees that the terms and provisions of this Bond and the Bond Resolution constitute a contract between each registered owner hereof and the Issuer.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be signed with the manual or facsimile signature of the Chairman of the Issuer and countersigned with the manual or facsimile signature of the Executive Secretary of the Issuer, and has caused the official seal of the Issuer to be duly impressed, or placed in facsimile, on this Bond.

Executive Secretary, Board of Regents
of The University of Texas System

Chairman, Board of Regents
of The University of Texas System

(BOARD SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

It is hereby certified that this Bond has been issued under the provisions of the Bond Resolution described in this Bond; and that this Bond has been issued in conversion of and exchange for or replacement of a bond, bonds, or a portion of a bond or bonds of an issue which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

(NAME)

Paying Agent/Registrar

Dated

Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned registered owner of this Bond, or duly authorized representative or attorney thereof, hereby assigns this Bond to

(Assignee's Social Security or
Taxpayer Identification Number)

(print or typewrite Assignee's name
and address, including zip code)

and hereby irrevocably constitutes and appoints

attorney to transfer the registration of this Bond on the Paying Agent/Registrar's Registration Books
with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: This signature must be
guaranteed by a member of the New
York Stock Exchange or a commercial
bank or trust company

Registered Owner
NOTICE: This signature must
correspond with the name of the
Registered Owner appearing on the
face of this Bond.

**[FORM OF REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS TO BE USED IF
THE BONDS ARE TO BE SO REGISTERED]**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

**Comptroller of Public Accounts
of the State of Texas**

(COMPTROLLER'S SEAL)

Provisions of Bonds related to redemption are to be deleted if the Series of Bonds is not subject to redemption. Bracketed information relates to Capital Appreciation Bonds and its use will depend on whether any Bonds of a Series are Capital Appreciation Bonds.

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: (See "RATINGS")

Delivery of the Bonds is subject to the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, that under statutes, regulations, published rulings and court decisions existing on the date thereof, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds will not be private activity bonds the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986. See "TAX MATTERS" for a discussion of certain collateral federal tax consequences, including the alternative minimum tax on corporations.

\$350,000,000*
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds (SEAL)
\$ _____ * Series 1996A
\$ _____ * Series 1996B

Dated: January 15, 1996

Due: August 15, as shown below

The Bonds of each series (collectively, the "Bonds") are special obligations of the Board of Regents (the "Board") of The University of Texas System (the "University System"), payable from and secured by a lien on "Pledged Revenues" (as defined herein) of the University System's Revenue Financing System on a parity with the Board's outstanding "Parity Debt" (as defined herein). The Bonds are issued pursuant to a Master Resolution of the Board which established the Revenue Financing System and a Supplemental Resolution of the Board which provides for issuance of the Bonds. **THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES. See "DESCRIPTION OF THE BONDS—Security for the Bonds."**

Proceeds from the sale of the Bonds, together with other available moneys of the Board, if any, will be used for the purpose of refunding certain outstanding obligations of the Board and of providing funds to pay the cost of improvements at certain component institutions of the University System. See "PLAN OF FINANCING."

Interest on the Bonds will accrue from January 15, 1996, and is payable on August 15 and February 15 of each year, commencing August 15, 1996, calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds are issuable only as fully registered bonds, without coupons, and, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which initially will act as securities depository for all of the Bonds pursuant to a book-entry only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of bond certificates except as described herein. For so long as Cede & Co., as nominee of DTC, is the exclusive registered owner of the Bonds, principal of and redemption premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Texas Commerce Bank National Association, to DTC on each applicable payment date. DTC will be responsible for distributing the amounts so paid to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry Only System."

The Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE BONDS—Redemption."

MATURITY SCHEDULE

<u>Series 1996A</u>				<u>Series 1996B</u>			
\$ _____ Serial Bonds				\$ _____ Serial Bonds			
Maturity (August 15)	Amount	Rate	Price or Yield	Maturity (August 15)	Amount	Rate	Price or Yield

Series 1996A Term Bonds

\$ _____ % Series 1996A Term Bond, Due August 15, _____, Price _____%

Series 1996B Term Bonds

\$ _____ % Series 1996B Term Bond, Due August 15, _____, Price _____%

The Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Austin, Texas, and for the University System by Wickliff & Hall P.C., Austin, Texas, and Fulbright & Jaworski L.L.P., Austin, Texas. The Bonds are expected to be available for delivery on or about _____, 1996, at the offices of DTC in New York, New York.

LEHMAN BROTHERS

ARTEMIS CAPITAL GROUP, INC.
FIRST SOUTHWEST COMPANY
GRIGSBY BRANDFORD & CO., INC.
M.R. BEAL & COMPANY
REINOSO & COMPANY INCORPORATED

BEAR, STEARNS & CO., INC.
GOLDMAN, SACHS & CO.
MERRILL LYNCH & CO.
RAUSCHER PIERCE REFSNFS, INC.
SMITH BARNEY INC.

Dated: _____, 1996

*Preliminary, subject to change

**BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM**

OFFICERS

Bernard Rapoport, Chairman
Thomas O. Hicks, Vice-Chairman
Martha E. Smiley, Vice Chairman
Arthur H. Dilly, Executive Secretary

MEMBERS

Terms Expire February 1, 1997

Zan Wesley Holmes, Jr. Dallas
Bernard Rapoport Waco
Ellen Clarke Temple Lufkin

Terms Expire February 1, 1999

Thomas O. Hicks Dallas
Lowell H. Lebermann, Jr. Austin
Martha E. Smiley Austin

Terms Expire February 1, 2001

Linnet F. Deily Houston
Donald L. Evans Midland
Tom Loeffler San Antonio

SYSTEM ADMINISTRATION

Dr. William H. Cunningham, Chancellor
Dr. James P. Duncan, Executive Vice Chancellor for Academic Affairs
Charles B. Mullins, M.D., Executive Vice Chancellor for Health Affairs
R. D. Burck, Executive Vice Chancellor for Business Affairs
Thomas G. Ricks, Vice Chancellor for Asset Management
Ray Farabee, Vice Chancellor and General Counsel
Michael Millsap, Vice Chancellor for Governmental Relations
Shirley Bird Perry, Vice Chancellor for Development and External Relations
John A. Roan, Assistant Vice Chancellor for Finance

**CHIEF ADMINISTRATIVE OFFICERS OF
UNIVERSITY SYSTEM COMPONENT INSTITUTIONS**

Dr. Robert E. Witt, President, The University of Texas at Arlington
Dr. Robert M. Berdahl, President, The University of Texas at Austin
Dr. Juliet V. Garcia, President, The University of Texas at Brownsville
Dr. Franklyn G. Jenifer, President, The University of Texas at Dallas
Dr. Diana S. Natalicio, President, The University of Texas at El Paso
Dr. Miguel A. Nevárez, President, The University of Texas-Pan American
Dr. Charles A. Sorber, President, The University of Texas of the Permian Basin
Dr. Samuel A. Kirkpatrick, President, The University of Texas at San Antonio
Dr. George F. Hamm, President, The University of Texas at Tyler
Kern Wildenthal, M.D., Ph.D., President, The University of Texas Southwestern Medical Center at Dallas
Thomas N. James, M.D., President, The University of Texas Medical Branch at Galveston
M. David Low, M.D., Ph.D., President, The University of Texas Health Science Center at Houston
John P. Howe III, M.D., President, The University of Texas Health Science Center at San Antonio
Charles A. LeMaistre, M.D., President, The University of Texas
M.D. Anderson Cancer Center at Houston
George A. Hurst, M.D., Director, The University of Texas Health Center at Tyler

No dealer, broker, salesman or other person has been authorized by the Board or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Board or the Underwriters. The price and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy the Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board or other matters described herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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\$350,000,000*

**BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM**

Revenue Financing System Bonds

\$ _____ * Series 1996A
\$ _____ * Series 1996B

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents of The University of Texas System (the "Board") of its Revenue Financing System Bonds, Series 1996A (the "Series 1996A Bonds") and Series 1996B (the "Series 1996B Bonds") and together with the Series 1996A Bonds, the "Bonds"), in the aggregate principal amount set forth above.

The University of Texas System (the "University System") currently consists of The University of Texas at Austin and the fourteen other state-supported institutions included in the University System by operation of State law. For the 1995 Fall Semester, the University System had preliminary total enrollment of 144,408 students. See "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM." The University of Texas System Revenue Financing System (the "Revenue Financing System") was established by the Master Resolution of the Board for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of University System components included as Members of the Revenue Financing System. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION." All of the institutions currently constituting University System components have been included as Members of the Revenue Financing System. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM." Pursuant to the Master Resolution, the Board has, with certain exceptions, combined all revenues, funds and balances attributable to any Member of the Revenue Financing System that may lawfully be pledged to secure the payment of revenue-supported debt obligations and pledged those sources as Pledged Revenues to secure payment of all revenue-supported debt obligations of the Board incurred as Parity Debt under the Master Resolution. The Board has covenanted that it will not incur any additional debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION." The Board intends to issue most of its revenue-supported debt obligations that benefit components of the University System as Parity Debt under the Master Resolution.

This Official Statement contains summaries and descriptions of the Plan of Financing, the Bonds, the Revenue Financing System, the Board, the University System, the Master Resolution and the Supplemental Resolution, among other things. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to complete copies of such documents, which may be obtained from the Office of Finance of The University of Texas System, 201 West 7th Street, Austin, Texas 78701. Unless otherwise defined herein, capitalized terms used in this Official Statement have the meanings assigned to such terms in "APPENDIX A, GLOSSARY OF TERMS."

PLAN OF FINANCING

Authority for Issuance of the Bonds

The Bonds are being issued in accordance with the general laws of the State of Texas, including particularly Chapter 55, Texas Education Code, and Articles 717k and 717q, Vernon's Annotated Texas Civil Statutes, as amended. The Bonds are issued as Parity Debt pursuant to the Master Resolution and a Fourth Supplemental Resolution to the Master Resolution (also referred to herein as the "Supplemental Resolution") adopted by the Board on January 5, 1996. The Board has previously issued its Revenue Financing System Refunding Bonds, Series 1991A, 1991B and 1991C and its Revenue Financing System Bonds, Series 1995A, which are currently outstanding in the

*Preliminary, subject to change.

aggregate principal amount of \$300,570,000, as Parity Debt pursuant to previous supplements to the Master Resolution. In addition, the Board has previously authorized a commercial paper program pursuant to which Parity Debt in the form of commercial paper notes may be issued, from time to time, under the Master Resolution; provided, that the aggregate principal amount of commercial paper notes at any time outstanding is limited by the Board's authorization to \$250,000,000. As of January 15, 1996, \$164,003,000 in aggregate principal amount of such commercial paper notes were outstanding. A portion of the currently outstanding Parity Debt will be refunded by the Bonds. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY SYSTEM OF TEXAS—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System."

Purpose for Issuance of Bonds

The Series 1996A Bonds are being issued for the purpose of financing the cost of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities of certain Members of the Revenue Financing System. The Series 1996B Bonds are being issued for the purpose of (i) currently refunding certain Parity Debt obligations issued by the Board pursuant to the Board's Revenue Financing System Commercial Paper Notes, Series A, in the aggregate principal amount of \$106,855,000 (the "Refunded Notes"), (ii) refunding a portion of the Board's Revenue Financing System Refunding Bonds, Series 1991A, maturing on or after August 15, 2002, in the aggregate principal amount of \$_____ (the "Refunded Series 1991A Bonds"), (iii) refunding a portion of the Board's Revenue Financing System Refunding Bonds, Series 1991B, maturing on or after August 15, 2002, in the aggregate principal amount of \$_____ (the "Refunded Series 1991B Bonds" and together with the Refunded Notes and the Refunded Series 1991A Bonds, the "Refunded Obligations"), and (iii) financing the cost of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities of certain Members of the Revenue Financing System.

Refunded Obligations

The Refunded Obligations and interest due thereon are to be paid on the scheduled interest payment and maturity dates, or upon earlier redemption thereof in the case of the Refunded Bonds, from funds to be deposited with Texas Commerce Bank National Association, as escrow agent (the "Escrow Agent"), pursuant to an escrow agreement (the "Escrow Agreement") between the Board and the Escrow Agent.

The Supplemental Resolution provides that, concurrently with delivery of the Bonds, a portion of the proceeds from the sale of the Series 1996B Bonds, together with other available funds, if any, will be deposited with the Escrow Agent into a separate escrow fund (the "Escrow Fund") to pay the principal of and interest on the Refunded Obligations. The amounts deposited into the Escrow Fund will be in the form of cash and noncallable, nonprepayable, direct obligations of the United States of America (the "Federal Securities") and will be sufficient to provide for payment of the principal of and redemption premium, if any, and interest on the Refunded Obligations when due. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. The Escrow Fund will not be available to pay principal of and interest on the Bonds.

Issuance of the Bonds will be subject to delivery by KPMG Peat Marwick LLP, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amounts of the Federal Securities held in the Escrow Fund, together with a portion of the interest income thereon and uninvested cash, if any, to pay, when due, the principal of and interest on the Refunded Obligations and (b) the actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not arbitrage bonds under section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). Such verification of accuracy of such mathematical computations will be based upon information and assumptions supplied by the Board, and such verification, information and assumptions will be relied on by Bond Counsel in rendering its opinion described herein.

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent, the Board will have effected the defeasance of the Refunded Obligations in accordance with applicable laws and the terms of the respective authorizing documents pursuant to which the Refunded Obligations were issued. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Obligations will be regarded as being outstanding only for the purpose of receiving payment from proceeds of the Federal Securities and cash held for such purpose in the Escrow Fund and will no longer be payable from or secured by a lien on any portion of the Pledged Revenues.

SOURCES AND APPLICATIONS OF FUNDS

The proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds	<u>Series 1996A</u>	<u>Series 1996B</u>	<u>Total</u>
Par Amount of Bonds	\$	\$	\$
Net Original Issue Premium			
System Contribution			
Accrued Interest	_____	_____	_____
Total Sources of Funds	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
Applications of Funds			
Escrow Fund	\$	\$	\$
Project Costs			
Debt Service Fund			
Underwriters' Discount and Other Costs of Issuance	_____	_____	_____
Total Uses of Funds	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>

DESCRIPTION OF THE BONDS

General

The Bonds of each Series will be dated January 15, 1996, and will bear interest from the later of such date or the most recent interest payment date to which interest has been paid or duly provided for at the rates shown on the cover page of this Official Statement calculated on the basis of a 360-day year composed of twelve 30-day months. Interest on the Bonds is payable August 15 and February 15 of each year, commencing August 15, 1996. Principal of and redemption premium, if any, and interest on the Bonds are payable by the Paying Agent/Registrar for the Bonds, initially Texas Commerce Bank National Association, at the times and places and in the manner specified on the cover page of this Official Statement.

The Bonds are initially issuable in book-entry only form. Initially, Cede & Co., as nominee of DTC (hereinafter defined), will be the registered owner and references herein to the Bondholders, holders, holders of the Bonds or registered owners of the Bonds shall mean Cede & Co., and not the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS—Book-Entry Only System."

In the event that the date for payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day on which banking institutions located in The City of New York, New York or in the city where the Principal Office for Payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which banking institutions are so authorized to close. Payment on such later date will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

If any Bond is not presented for payment when the principal or the redemption price therefor becomes due, or any check representing payment of interest on Bonds is not presented for payment, and if money sufficient to pay such Bond (or the portion thereof called for redemption) or such interest, as applicable, has been deposited under the Supplemental Resolution, all liability of the Board to the owner thereof for the payment of such Bonds (or portion thereof) or such interest, as applicable, will be completely discharged, and thereupon it shall be the duty of the Paying Agent/Registrar to hold such money, without liability for interest thereupon, for the benefit of the owner of the applicable Bond, who will thereafter be restricted exclusively to such money, for any claim on his part under the Supplemental Resolution or on or with respect to, such principal, redemption price and/or interest. Money not claimed within two years will, upon request of the Board, be repaid to the Board.

Redemption

Optional Redemption. On August 15, 200__ or on any date thereafter, the Bonds of each Series scheduled to mature on August 15, 200__, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price (expressed as a percentage of principal amount as of the date of redemption) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following redemption schedule, plus accrued interest to the date fixed for redemption; provided, that during any period in which ownership of the Series of Bonds to be redeemed is determined by a book entry at a securities depository for such Series of Bonds, if fewer than all of such Series of Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such Series and maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository (see "DESCRIPTION OF THE BONDS—Book-Entry Only System"):

<u>Redemption Period</u>	<u>Redemption Price</u>
August 15, 200__ through August 14, 200__	____%
August 15, 200__ through August 14, 200__	____%
August 15, 200__ and thereafter	____%

Mandatory Sinking Fund Redemption. The Series 1996A Bonds scheduled to mature on August 15, 200__ and the Series 1996B Bonds scheduled to mature on August 15, 200__, are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, with the particular Bonds of each Series or portions thereof to be redeemed to be selected and designated by the Board (provided that a portion of a Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof plus accrued interest to the date of redemption, on the date, and in the principal amount set forth in the following schedule:

<u>Series 1996A Bonds</u> <u>Maturing August 15, _____</u>		<u>Series 1996B Bonds</u> <u>Maturing August 15, _____</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, _____	\$ _____	August 15, _____	\$ _____
August 15, _____*	\$ _____	August 15, _____*	\$ _____

*Final maturity.

The principal amount of each Series of Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the option of the Board, by the principal amount of any Bonds of such Series, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by the Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Bonds. During any period in which ownership of the Series of Bonds to be redeemed is determined by a book entry at a securities depository for such Series of Bonds, if fewer than all of such Series of Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such Series and maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository. See "DESCRIPTION OF THE BONDS—Book-Entry Only System".

Notice of Redemption. Not less than 30 days prior to a redemption date, a notice of redemption will be published once in a financial publication, journal or report of general circulation among securities dealers in The City of New York, New York, or in the State of Texas, in accordance with the Supplemental Resolution. Additional notice will be sent by the Paying Agent/Registrar by United States mail, first-class, postage prepaid, to each registered owner of a Bond to be redeemed in whole or in part at the address of each such owner appearing on the registration books of the Paying Agent/Registrar on the 45th day prior to such redemption date, to each registered securities depository and to any national information service that disseminates redemption notices. Failure to mail or receive

such notice will not affect the proceedings for redemption and publication of notice of redemption in the manner set forth above shall be the only notice actually required as a prerequisite for redemption. In addition, in the event of a redemption caused by an advance refunding of either Series of Bonds, the Paying Agent/Registrar shall send a second notice of redemption to registered owners of Bonds subject to redemption at least 30 days but not more than 90 days prior to the actual redemption date. Any notice sent to registered securities depositories or national information services shall be sent so that they are received at least two days prior to the general mailing or publication date of such notice. The Paying Agent/Registrar shall also send a notice of prepayment or redemption to the registered owner of any Bond who has not sent his Bonds in for redemption 60 days after the redemption date.

All redemption notices shall contain a description of the Bonds to be redeemed including the complete name of the Bonds, the Series, the dates of issue, the interest rates, the maturity dates, the CUSIP numbers, the certificate numbers, the amounts of each certificate called, the publication and mailing dates for the notices, the dates of redemption, the redemption prices, the name of the Paying Agent/Registrar and the address at which such Bonds may be redeemed including a contact person and telephone number.

The Paying Agent/Registrar

In the Supplemental Resolution, the Board reserves the right to replace the Paying Agent/Registrar. The Board covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are outstanding, and any successor Paying Agent/Registrar shall be a competent and legally qualified bank, trust company, financial institution or other agency. In the event that the entity at any time acting as Paying Agent/Registrar should resign or otherwise cease to act as such, the Board covenants promptly to appoint a competent and legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar, as applicable. Upon any change in the Paying Agent/Registrar for the Bonds, the Board agrees promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar, as applicable.

Book-Entry Only System

Book-Entry Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond will be issued for each maturity of each Series of Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of

Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information concerning DTC and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Board.

In reading this Official Statement it should be understood that while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Master Resolution and Supplemental Resolution will be given only to DTC.

Effect of Termination of Book-Entry Only System. In the event that the book-entry only system is discontinued by DTC or the Board, the following provisions will be applicable to the Bonds: Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same Series and maturity upon surrender thereof at the Principal Office for Payment of the Paying Agent/Registrar. The transfer of any Bond may be registered on the books maintained by the Paying Agent/Registrar for such purpose only upon the surrender of such Bond to the Paying Agent/Registrar with a duly executed assignment in form satisfactory to the Paying Agent/Registrar. For every exchange or transfer of registration of Bonds, the Paying Agent/Registrar and the Board may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer. The Board shall pay the fee, if any, charged by the Paying Agent/Registrar for the transfer or exchange. The Paying Agent/Registrar will not be required to transfer or exchange any Bond after its selection for redemption. The Board and the Paying Agent/Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Bond.

Security for the Bonds

The Bonds are Parity Debt under the Master Resolution and constitute special obligations of the Board payable from and secured by a lien on and pledge of Pledged Revenues, subject only to the provisions of the Prior Encumbered Obligations. The Master Resolution provides that the obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and any supplement thereto is absolute, irrevocable, complete and unconditional, and the amount, manner and time of payment shall not be modified in any way regardless of any contingency. **THE BOARD HAS NO TAXING POWER, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE BONDS. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS FROM ANY SOURCE OTHER THAN PLEDGED REVENUES.** See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION."

Supplemental Resolution

The issuance, sale and delivery of the Bonds are authorized by the Supplemental Resolution. The Supplemental Resolution also contains the written determination by the Board, as required by the Master Resolution as a condition to the issuance of Parity Debt, that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System and that the Members on whose behalf the Bonds are issued possess the financial capacity to satisfy their Direct Obligations after taking the Bonds into account.

The Supplemental Resolution permits amendment, without the consent of the Bondholders, for the same purposes for which amendment may be made to the Master Resolution without the consent of the owners of outstanding Parity Debt. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION—Amendments of Master Resolution." The Supplemental Resolution also permits amendment, with the consent of the owners of 51% in aggregate principal amount of the outstanding Bonds, other than amendments which: change the maturity of the outstanding Bonds; reduce the rate of interest borne by the outstanding Bonds; reduce the amount of principal payable on the outstanding Bonds; modify the payment of principal or interest on the outstanding Bonds, or impose any conditions with respect to such payment; affect the rights of the owners of less than all Bonds then outstanding; or change the minimum percentage of outstanding principal amount of Bonds necessary for consent to an amendment.

DESCRIPTION OF THE REVENUE FINANCING SYSTEM

The Board adopted the Master Resolution for the purpose of assembling the University System's revenue-supported debt capacity into a single financing program in order to provide a cost-effective debt program to component institutions of the University System and to maximize the financing options available to the Board. The Master Resolution provides for the establishment of the Revenue Financing System and permits the Board to make additions to or deletions from the membership of the Revenue Financing System subject to the satisfaction of certain conditions specified therein. See "APPENDIX B, SUMMARY OF THE MASTER RESOLUTION—Changes in Membership of the Revenue Financing System."

Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to Members of the Revenue Financing System and lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Debt from time to time issued under the Master Resolution. Pledged Revenues do not include (a) the interest of the University System in the Available University Fund (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund"); (b) amounts appropriated to any Member from the Higher Education Assistance Fund (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds"); (c) except to the extent so appropriated, general revenue funds appropriated to the Board by the State (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations"); and (d) Practice Plan Funds of any Member, including the income therefrom and any fund balances related thereto not included in Pledged Practice Plan Funds.

As shown on the Combined Statement of Current Funds Revenues and Expenditures, included in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM," the total unrestricted

current funds revenues of the University System for the fiscal year ended August 31, 1995, were \$3,317 million. The University System has calculated that at least \$1,512 million of the unrestricted current funds revenues for the fiscal year ended August 31, 1995, constituted Pledged Revenues. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues." Accumulated fund balances available to the Board and attributable to any Member of the Revenue Financing System also constitute Pledged Revenues to the extent such fund balances are lawfully available to the Board for payments on Parity Debt. The Board has not attempted to calculate the amount of fund balances included in Pledged Revenues.

Pledged Revenues not required to pay debt service on Parity Debt are available to pay other costs of operating the University System. Continued operation of the University System at current levels is substantially dependent upon general revenue appropriations. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations."

The Board has covenanted in the Master Resolution that in each fiscal year it will use its reasonable efforts to collect revenues sufficient to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year. The Board has also covenanted in the Master Resolution that it will not incur any debt secured by Pledged Revenues unless such debt constitutes Parity Debt or is junior and subordinate to Parity Debt. The Board intends to issue most of its revenue-supported debt obligations which benefit components of the University System as Parity Debt under the Master Resolution.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following schedule shows the combined debt service requirements on all Parity Debt outstanding following issuance of the Bonds.

Combined Annual Debt Service Requirements⁽¹⁾

<u>Date</u>	<u>Series 1996A Bonds</u>		<u>Series 1996B Bonds</u>		<u>Total Principal and Interest on the Bonds</u>	<u>Principal and Interest on Outstanding Bonds</u>	<u>Total Annual Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>			

[TO COME]

⁽¹⁾ Does not include debt service on (A) the Refunded Bonds, (B) the Parity Debt obligations currently outstanding in the form of Revenue Financing System Commercial Paper Notes, Series A, or (C) the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, Series 1986; the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992; The University of Texas at Austin Building Revenue Refunding Bonds, Series 1986. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System."

GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM

Background and History

The University of Texas System was established pursuant to the Texas Constitution of 1876. In 1881, Austin was designated the site of the main academic campus and Galveston as the location of the medical branch. The University of Texas at Austin first opened in 1883, and eight years later, John Sealy Hospital in Galveston (now a part of the University System's Medical Branch at Galveston) established a program for university-trained medical professionals.

In addition to the original academic campus located in Austin, the University System now includes additional academic campuses in El Paso, Dallas, Arlington, San Antonio, the Permian Basin (Odessa), Tyler and the Rio Grande Valley (Brownsville and Edinburg). Health Institutions for medical education and research have expanded beyond the original Galveston medical campus to include the University System's M.D. Anderson Cancer Center (Houston), the Southwestern Medical Center at Dallas, the Health Science Centers at Houston and San Antonio, and the Health Center at Tyler. The fifteen component institutions of the University System have emerged among the nation's premier educational enterprises.

Many of the University System programs in science, engineering, liberal arts and humanities rank among the very best in the country. Library facilities on The University of Texas at Austin campus, long considered among the finest libraries in the world, are available to other component institutions through a sophisticated statewide computerized telecommunications network.

Coordinating Board

The University System is subject to the supervisory powers of the Texas Higher Education Coordinating Board (the "Coordinating Board"). The Coordinating Board is an agency of the State established to promote the efficient use of State resources by providing coordination and leadership for the State's higher education systems, institutions and governing boards. The Coordinating Board is the highest authority in the State in matters of public higher education and prescribes the scope and role of each institution of higher education. The Coordinating Board periodically reviews all degree and certificate programs offered by the State's institutions of higher education and annually reviews the academic courses offered by such institutions. The Coordinating Board also determines space utilization formulas designed to promote the efficient use of construction funds and the development of physical plants to meet projected growth estimates. These space utilization formulas directly impact the allocation of appropriated funds among the State's institutions of higher education. As required by law, the Coordinating Board must approve all new construction projects for components of the University System, other than construction projects at The University of Texas at Austin financed with the proceeds of Permanent University Fund bonds. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Permanent University Fund Bonds."

Board of Regents

The Board is the governing body of the University System, and its members are officers of the State, appointed by the Governor with the advice and consent of the State Senate. The nine regents constituting the Board serve without pay and are appointed to staggered six-year terms. The Board members, their cities of residence, and term expirations are listed on page (i) of this Official Statement.

Administration

The University System is managed through administrative officers in the System Administration Office, including the Chancellor, the Executive Vice Chancellors for Academic Affairs, Health Affairs and Business Affairs, and other officers concerned with asset management, legal, governmental relations and public affairs. The chief administrative officers at all of the component institutions report to either the Executive Vice Chancellor for Academic Affairs or the Executive Vice Chancellor for Health Affairs and meet with their representative Executive Vice Chancellor on a bi-monthly basis in Austin. The Executive Vice Chancellor for Business Affairs and the chief business officers at each component also meet bi-monthly to consider topics of mutual concern.

At each component institution, a president, or a director in the case of the Health Center at Tyler, serves as the chief administrative officer. The president prepares biennial budgets for submission to the State Legislature, capital expenditure budgets, reports and requests to the Coordinating Board and conducts the ongoing affairs of his or her institution.

The principal administrative officers of the University System, along with the officers of the University System responsible for investment and finance, are listed below. All of such officers reside in Austin, the headquarters for the University System.

Dr. William H. Cunningham	Chancellor
Dr. James P. Duncan	Executive Vice Chancellor for Academic Affairs
Charles B. Mullins, M.D.	Executive Vice Chancellor for Health Affairs
R.D. Burck	Executive Vice Chancellor for Business Affairs
Thomas G. Ricks	Vice Chancellor for Asset Management
John A. Roan	Assistant Vice Chancellor for Finance

Summary biographical information relating to each of the administrative officers identified above is set forth as follows:

Dr. William H. Cunningham became the Chancellor of the University System on September 1, 1992. Prior to assuming the Chancellorship, he served as President of The University of Texas at Austin

for seven years and as Dean of the College and Graduate School of Business Administration for the three preceding years. Dr. Cunningham joined The University of Texas at Austin faculty in January 1971 from Michigan State University, where he earned his B.A., M.B.A., and Ph.D. degrees. He is a nationally known marketing scholar, former editor of the Journal of Marketing and an experienced author having written several books.

Dr. James P. Duncan was named Executive Vice Chancellor for Academic Affairs of the University System in June 1983. Dr. Duncan has received a Bachelor of Arts, a Master of Science, and a Doctorate of Education, all from Indiana University. Dr. Duncan is also a professor of educational administration on the faculty of The University of Texas at Austin. As Executive Vice Chancellor for Academic Affairs, Dr. Duncan is responsible for academic planning, programs, personnel, facilities planning and construction, and budgeting for the academic components of the University System.

Charles B. Mullins, M.D. was named Executive Vice Chancellor for Health Affairs of the University System on September 1, 1981. Dr. Mullins received an M.D. in 1958 from The University of Texas Southwestern Medical Center at Dallas. Since that time, Dr. Mullins has held the positions of flight surgeon for the United States Air Force, professor of medicine at The University of Texas Southwestern Medical Center at Dallas, Director of Medical Affairs at Parkland Memorial Hospital in Dallas and Chief Executive Officer for Dallas County Hospital District, among others. Dr. Mullins has written numerous published medical and administrative reviews, editorials and books.

R.D. Burck was appointed Vice Chancellor for Business Affairs for the University System in 1988 and was promoted in 1992 to Executive Vice Chancellor for Business Affairs. He received his Bachelor of Business Administration degree from The University of Texas in 1955, and attended South Texas Law School, after which he began a 29-year career with Getty Oil. In 1974, he assumed the duties of diversified operations manager for Getty Oil, and in this role was responsible for managing the company's worldwide holdings in real estate, agriculture, television, forest products, and construction.

Thomas G. Ricks was appointed the Vice Chancellor for Asset Management for the University System in 1992. Prior to becoming Vice Chancellor, he served as Executive Director-Finance and Private Investments of the University System. He is responsible for investment management of all University System endowment and operating funds aggregating to \$8.5 billion. Before working at the University System, Mr. Ricks was Manager-Finance and Bank Relations of The Superior Oil Company and an International Banking Officer with the Continental Illinois Bank. He is a Certified Public Accountant and received his M.B.A. degree from the University of Chicago in 1977. It is expected that on March 1, 1996, Mr. Ricks will become president of The University of Texas Investment Management Company and will no longer be employed by the University System. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Management of Investments."

John A. Roan joined the University System in 1989 as the Manager of Finance. He was promoted in April 1994 to Assistant Vice Chancellor for Finance. As the Assistant Vice Chancellor for Finance, he oversees the responsibilities of the Office of Finance and the Office of Facilities, Planning and Construction. Prior to working at the University System, he established a 20-year career in the banking industry. Mr. Roan earned both his B.B.A. and M.B.A. degrees from The University of Texas at Austin.

Component Institutions

A summary description of the University System's component institutions, which includes nine general academic institutions and six Health Institutions, each of which is a Member of the Revenue Financing System, is set forth as follows:

General Academic Institutions.

The University of Texas at Arlington is a major comprehensive teaching, research and public service institution located in the heart of the Dallas-Fort Worth Metroplex. As the University System's second largest academic component, this institution offers 54 baccalaureate, 59 master's and 19 doctoral degrees within nine academic units including Architecture, Business, Engineering, Liberal Arts, Nursing, Science, Social Work, Teacher Education and Urban and Public Affairs. A high priority on graduate education has stimulated the growth of the Graduate School to nearly 20 percent of the total student

population. The largest graduate enrollment is in the engineering disciplines. One of the fastest-growing programs is the doctorate in humanities, which continues to receive national accolades.

The University of Texas at Austin, which opened in 1883, is the oldest and largest component of the University System and third largest university in the nation. It is a major comprehensive research university with a broad mission of undergraduate education, graduate education and research and public service. Serving nearly 48,000 students, the institution offers 291 degree programs in virtually every field, except most health-related professions and agriculture. Numerous academic programs are ranked among the top 20 nationally. Because of its relatively low tuition and high academic standing, The University of Texas at Austin is consistently ranked among the best values in higher education in the nation.

Its academic resources include a library system that is ranked fifth among the nation's university research libraries and which has approximately 7.2 million volumes. The library not only serves the campus community but also is a major source of information for scholars, professionals, businesses, government agencies, and the general public across the state.

The University of Texas at Brownsville, formerly a part of the University of Texas - Pan American, became a separate institution of the University System as of September 1, 1991. Located one block from the Texas-Mexico border, The University of Texas at Brownsville's efforts are directed toward enhancing educational opportunities for a bilingual, bicultural population. The institution, through a partnership with Texas Southmost College, offers certificate, associate, baccalaureate and graduate programs within six academic units including Liberal Arts, Science and Mathematics, Business and Industry, Education, Health Sciences and the Division of Continuing Education. The partnership with Texas Southmost College operates with a consolidated administrative structure. The combined faculty and shared teaching mission provide continuity in curriculum, efficient use of physical, fiscal and human resources, and high-quality instructional programs.

The University of Texas at Dallas, developed from a private graduate research center established in 1961, joined the University System in 1969. It offered only upper-level and graduate studies until the addition of freshman and sophomore classes in 1990. The institution is located approximately 18 miles north of downtown Dallas, adjacent to Synergy Park, a 400 acre high-technology industrial park developed by the institution. There are also two off-campus components of the institution--the Callier Center for Communication Disorders (a leading speech and hearing clinic), and the University of Texas at Dallas Geological Information Library.

The Schools of the institution, which include Arts and Humanities, General Studies, Engineering and Computer Science, Human Development, Management, Natural Sciences and Mathematics, and Social Sciences, provide public service as well as study and research opportunities. When measured by research funding per faculty member, it consistently ranks among the top three academic research-oriented universities in the State.

The University of Texas at El Paso was established by the State Legislature in 1914 as the Texas School of Mines and Metallurgy. It was renamed the College of Mines after becoming a branch of the University System in 1919, redesignated as Texas Western College in 1949 and since 1967, has been named The University of Texas at El Paso.

The institution is nationally recognized as a center for high-technology research and as a leader in border studies and bilingual education. The University of Texas at El Paso ranks fourth among the University System's general academic universities in total annual research expenditures, with a four-fold increase in external funding during the past five years. As a regional university, The University of Texas at El Paso serves a largely commuting student population of over 16,000, 85% of whom are from El Paso County. Additionally, over 1,278 Mexican nationals, approximately 14% of all Mexican citizens enrolled in higher education in the United States, attend the institution.

Degrees are offered at the baccalaureate, master's and doctoral levels through six colleges including Business Administration, Education, Engineering, Liberal Arts, Nursing and Allied Health and Science. Doctorates are offered in Psychology, Geological Sciences, Computer Engineering, Materials Science and Engineering, and Environmental Engineering. Planning for additional doctoral programs is currently underway.

The University of Texas-Pan American, located in Edinburg, was founded in 1927 and joined the University System in 1989. Nearly all of the institution's students come from the immediate region, the four southern-most counties of Texas known as the Rio Grande Valley. About 87% of its 13,400 students are Hispanic, reflecting the demography of the region.

The University of Texas-Pan American offers one associate's degree, 41 baccalaureate degrees and 30 master's degrees through six academic colleges including Business Administration, Education, Health Sciences and Human Services, Liberal and Performing Arts, Science and Engineering and Social and Behavioral Sciences. The institution also offers a doctorate in Business Administration with a concentration in international business. Additionally, several other degree programs are in various stages of planning and approval for implementation during the next several years.

The University of Texas of the Permian Basin in Odessa, was established in 1969 by the Texas Legislature as an upper-level institution, its mission was expanded in 1991 to include freshman and sophomore courses. It is the only four-year university serving the surrounding 17-county region. The institution with 23 undergraduate and 8 graduate programs, currently serves more than 2,200 students. Its academic structure consists of Arts and Sciences, Business, and Education. Special programs include premedical and prelegal studies and teacher certification.

The University of Texas of the Permian Basin provides a strong foundation for the region's future with special programs that assist surrounding communities and local industry. One such program is the Petroleum Industry Alliance (PIA) located at the Center for Energy and Economic Diversification. PIA serves the region's most vital industry--oil and gas. It connects the oil and gas industry with State and Federal agencies, laboratories and the institution.

The University of Texas at San Antonio was authorized by the Texas Legislature in 1969, and first offered classes in 1973. The institution's primary strength at the undergraduate level lies in the breadth and depth of its academic programs. Its four colleges--Business, Fine Arts and Humanities, Sciences and Engineering, and Social and Behavioral Sciences--offer 50 undergraduate and 28 graduate degree programs. Graduate degree programs include 8 master's concentrations in the College of Business. Doctoral programs in neurobiology and computer science have been implemented, and additional doctoral programs in engineering and educational leadership are planned.

The Institute of Texan Cultures at San Antonio is part of The University of Texas at San Antonio. Since its completion in 1968, the Institute has grown from a world's fair exhibit into a statewide resource and information center and is the learning and communication center for the history, culture and folklore of Texas. The exhibit floor, containing displays, artifacts, historic photographs and vignettes on Texas history, has been expanded to a teaching laboratory with trained volunteers and staff members providing living history demonstrations of folk customs and crafts.

The University of Texas at Tyler, established in 1971 as Tyler State College, became Texas Eastern University in 1976. By action of the State Legislature, it became a part of the University System in 1979. The University of Texas at Tyler is the only public degree-granting university located in the East Texas Planning Region, an area of 700,000 population which includes the Tyler and Longview/Marshall metropolitan area.

As an upper-level university, The University of Texas at Tyler addresses the needs of students from community and junior colleges and transfer students from other institutions. The institution has established joint baccalaureate programs with several community and junior colleges in the region, as well as a partnership agreement with Tyler Junior College. Baccalaureate and master's degrees are offered through four major academic colleges including Business Administration, Education and Psychology, Liberal Arts, and Sciences and Mathematics.

Health Institutions.

The University of Texas Southwestern Medical Center at Dallas is by many measures among the top academic medical centers in the United States, counting among its faculty four active Nobel Laureates. Established as Southwestern Medical College in 1943, it became a part of the University System in 1949. In 1972, its scope was expanded to that of a health science center and the current name was adopted in 1987. Today, the Medical Center consists of Southwestern Medical School, Southwestern Graduate School of

Biomedical Sciences and Southwestern Allied Health Sciences School. The three schools enroll over 1,600 students and train more than 1,400 postdoctoral resident physicians and research fellows and provide continuing education for approximately 15,000 practicing health professionals.

The Medical Center's Faculty has nearly 1,300 full-time members. In addition to the four active Nobel Laureates, the faculty includes 11 members of the National Academy of Sciences and 3 members of Britain's Royal Society. The faculty and residents provide patient care at the Zale Lipshy University Hospital, Parkland Memorial Hospital, The Children's Medical Center of Dallas and a host of other military veteran and civilian hospitals. Faculty physicians provide more than \$179 million in unreimbursed professional services annually.

Faculty conduct research programs of over \$150 million a year in such areas as arthritis, cancer, cholesterol, chronic pain, developmental biology, heart disease and stroke, molecular genetics, neurosurgery, a variety of central nervous system, neuromuscular and psychiatric disorders; and on many other clinical and basic science fronts.

The University of Texas Medical Branch at Galveston is the oldest academic health science center in Texas and the second oldest component of the University System. Over the past 105 years, the Medical Branch has become firmly established as a leader in patient care, medical education and research.

More than 2,800 students, including housestaff, are enrolled in the degree programs and graduate medical training offered through the School of Medicine, the School of Nursing, the School of Allied Health Sciences, the Graduate School of Biomedical Sciences, the Institute for the Medical Humanities, and the Marine Biomedical Institute.

Composed of four schools, two institutes, and seven hospitals, the Medical Branch is the only statewide referral center. The Medical Branch treats over 34,000 inpatients and more than 585,000 outpatients annually, including over 66,000 emergency room patients. The John Sealy Hospital, a 12-story, 528-bed tower, is the central patient care facility. Other Medical Branch hospitals include the Jennie Sealy Hospital, R. Waverley Smith Pavilion, Mary Moody Northern Pavilion, Children's Hospital and the Texas Department of Criminal Justice Hospital. The Shriners Burns Institute provides treatment free of charge to pediatric burn patients from around the world.

The University of Texas Health Science Center at Houston, which was established in 1972, has become the largest educational component of the Texas Medical Center, and it is among the country's top 10 free-standing medical/health research institutions in research expenditures. Over 3,000 students are enrolled in six schools consisting of Medicine, Dentistry, Nursing, Public Health, Biomedical Sciences and Allied Health Sciences.

The Health Science Center's focus on prevention recognizes that most diseases result from three factors: genetics, environmental and lifestyle. Prevention is the key in a number of Federally funded projects including finding genes responsible for diabetes and the prevention of AIDS among adolescents. A full range of medical specialties continues to be available through the Medical School's physicians, who provide care for more than 1,000,000 outpatients annually. The institution also operates the Harris County Psychiatric Center, the only public psychiatric hospital in the Houston area, where patient admissions total more than 4,700 annually. The Dental Branch provides care to more than 186,000 outpatients, and Nursing Services, which provides primary care for students, employees and private patients, treats nearly 7,000 outpatients annually.

The University of Texas Health Science Center at San Antonio was established in 1968, and has gained an international reputation as a leading university research center. Located on a 100-acre campus in the heart of the South Texas Medical Center, the Health Science Center has more than a \$800 million impact each year on the Texas economy and provides more than \$70 million each year to the community in indigent care. Degree programs are offered in six schools including Medical, Dental, Nursing, Allied Health Sciences, Graduate School of Biomedical Sciences, Public Health and Doctor of Pharmacy Degree Program. The Dental School consistently ranks as one of the nation's top dental programs and in the number of research projects funded by the National Institutes of Health.

Research and patient care in areas such as diabetes, orthopedics, pediatric surgery, organ transplantation, and a host of rehabilitative medicines attract patients from across the nation and from

throughout the world. The faculty and residents provide patient care at the University Hospital, the Audie L. Murphy Memorial Veterans Hospital, the University Health Center, and a host of other military and civilian hospitals and institutions.

The University of Texas M.D. Anderson Cancer Center at Houston ranks as one of the world's most respected and productive centers devoted exclusively to cancer patient care, research, education and prevention. M.D. Anderson was one of the first three such centers and remains the only comprehensive cancer center within a university system.

Since the institution was established by the Texas Legislature in 1941, M.D. Anderson has made major contributions that have enhanced cancer care throughout the world. Additionally, M.D. Anderson offers one of the largest bone marrow transplantation programs in the world and an extensive program of clinical trials that seek to improve therapies for all types of cancer. More than 330,000 people have turned to M.D. Anderson for cancer care since the first patient was registered in 1944. The main complex of M.D. Anderson is located in Houston's Texas Medical Center and is composed of a 518-bed hospital, a 10-story outpatient clinical building, that last year accommodated more than 327,000 outpatient visits, and 350 research laboratories.

The University of Texas Health Center at Tyler is an academic health care institution with a mission of patient care, medical education and biomedical research. The institution joined the University System in 1977, after 30 years as a State tuberculosis and pulmonary hospital. Patients come to the Health Center for primary care and for further diagnosis and treatment by specialists, particularly in the areas of heart and lung diseases. Outpatient services include family practice, sleep evaluation, occupational medicine, oncology, internal medicine, urgent care, adult asthma, and many other clinical science fronts. In 1995, the Health Center served patients from 142 of the State's 254 counties and recorded approximately 3,300 admissions and more than 100,000 outpatient visits. The Center for Pulmonary Infectious Disease Control is a focus for research, media protocols, and immediate information regarding infectious diseases. Through education, the Health Center includes postgraduate residency programs in family practice and in occupational and environmental medicine, clinical rotations for Texas medical school students, and clinical training for nursing and allied health students from nearby colleges.

Enrollment

The following are the historical headcount enrollment figures at the teaching institutions of the University System during the past five Fall Semesters:

	Fall Enrollment ⁽¹⁾				
	1991	1992	1993	1994	1995 ⁽⁴⁾
The University of Texas at Arlington	25,135	24,727	23,749	23,202	22,147
The University of Texas at Austin ⁽²⁾	49,961	49,253	48,555	47,957	47,905
The University of Texas at Brownsville ⁽³⁾	1,457	1,672	1,911	2,205	2,473
The University of Texas at Dallas	8,980	8,993	8,640	8,487	9,019
The University of Texas at El Paso	16,795	17,213	16,999	17,188	16,281
The University of Texas-Pan American	12,466	13,299	13,702	13,750	13,334
The University of Texas of the Permian Basin	2,107	2,282	2,219	2,315	2,220
The University of Texas at San Antonio	15,759	16,767	17,097	17,579	17,387
The University of Texas at Tyler	3,789	3,979	3,936	3,987	3,777
The University of Texas Southwestern Medical Center at Dallas	1,595	1,634	1,680	1,700	1,691
The University of Texas Medical Branch at Galveston	1,960	2,112	2,251	2,327	2,246
The University of Texas Health Science Center at Houston	3,125	3,204	3,279	3,183	3,097
The University of Texas Health Science Center at San Antonio	<u>2,546</u>	<u>2,573</u>	<u>2,662</u>	<u>2,790</u>	<u>2,831</u>
Total	<u>145,675</u>	<u>147,708</u>	<u>146,680</u>	<u>146,670</u>	<u>144,408</u>

- (1) The University of Texas M.D. Anderson Cancer Center and The University of Texas Health Center at Tyler do not have enrolled students.
- (2) In order to prevent overcrowding of facilities and an unacceptable student-to-faculty ratio, The University of Texas at Austin initiated an enrollment management program in the Fall 1987 aimed at achieving a target enrollment of 48,000 by the Fall 1994.
- (3) The University of Texas at Brownsville shares an educational partnership with Texas Southmost College. Enrollment data consists of upper-level undergraduate students (above the sophomore level) and graduate students at The University of Texas at Brownsville only and does not include students enrolled at Texas Southmost College.
- (4) Enrollment figures for the Fall 1995 Semester represent preliminary twelfth class day numbers and are subject to change.

The following are the historical headcount undergraduate admissions figures for the teaching institutions of the University System for the previous five Fall Semesters:

	1991	1992	1993	1994	1995
Freshman:					
Applications	30,411	30,524	34,750	30,834	31,486
Acceptances	22,548	22,215	23,620	23,074	23,493
Matriculants	13,240	13,093	13,788	13,441	14,195
Transfers:					
Applications	24,366	24,935	25,428	28,817	25,726
Acceptances	15,400	14,984	15,827	18,958	17,923
Matriculants	12,010	12,082	12,231	13,408	

The following table sets forth, by percentage, a breakdown of the University System's enrollment by residency classification for the previous five Fall Semesters:

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
In-State Students	88.6%	88.5%	88.1%	87.9%	87.2%
Out-of-State Students	5.6%	5.7%	6.0%	6.1%	6.5%
Foreign Students	<u>5.8%</u>	<u>5.8%</u>	<u>5.9%</u>	<u>6.0%</u>	<u>6.3%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Faculty and Employees

The numbers of faculty and employees employed by the component institutions of the University System as of November 1995, the most recent period for which such information is available, are set forth in the following table:

Faculty and Employees

	<u>November 1995</u>
<u>General Academic Institutions</u>	[TO COME]
Faculty	
All Other Employees	
Subtotal	
<u>Health Institutions</u>	
Faculty	
All Other Employees	
Subtotal	
<u>University System Administration</u>	
Total	

The quality of the faculty in the University System is evidenced by a wide range of honors, awards and grants. As of November 1, 1993, the faculty of the component institutions within the University System includes: six Nobel Prize Laureates; two Pulitzer Prize Winners; 33 Members of the National Academy of Sciences; 34 Members of the National Academy of Engineering; 20 Members of the American Academy of Arts and Sciences; 21 Members of the American Law Institute; and 25 members of the American Academy of Nursing.

Each year, faculty members throughout the University System conduct research funded by competitive grants from agencies such as the National Science Foundation, the National Institutes of Health, the American Cancer Society, the National Endowment for the Humanities, the National Endowment for the Arts and the Coordinating Board. Research expenditures from these and other grants have increased 26.1% during the fiscal years 1991 through 1995 from \$594 million to \$749 million.

University System faculty members have received such prestigious awards as the Field Medal in mathematics, Presidential Young Investigator Awards, and numerous fellowships from such organizations as the McArthur, Guggenheim, Mellon, Rockefeller, Ford, Sid Richardson, Welch and Meadows Foundations.

FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM

Financial management of the University System is the responsibility of the Executive Vice Chancellor for Business Affairs and the Vice Chancellor for Asset Management. The Office of Business Affairs includes the Office

of Finance, which reports to John A. Roan, Assistant Vice Chancellor for Finance. The Office of Business Affairs has debt administration responsibility, as well as offices which coordinate the operational activities of the University System, including budget matters. The Assistant Vice Chancellor and Controller of the University System, reporting to the Executive Vice Chancellor for Business Affairs, prepares for the Board an annual budget for the University System, monthly financial reports and the annual unaudited primary financial statements of the University System financial report for the Board. The Office of Asset Management is responsible for investment management of the University System's endowment and operating funds. See "Investment Policy and Procedures—Management of Investments" below for a discussion of an anticipated transfer of management responsibility for investments to a new non-profit corporation controlled by the Board.

Financial Statements

Annually, not later than December 31st of each year, the unaudited primary financial statements of the University System dated as of August 31st, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. Each year, the State Auditor must certify the financial statements of the State as a whole, inclusive of the University System, and in so doing examines the financial records at each of the University System's component institutions. No outside audit in support of this detailed review is required or obtained by the University System.

The University System's combined primary financial statements include the System Administration and all component institutions of the University System. Amounts due between component institutions in the same fund category, amounts held for component institutions by the System Administration and other duplications in reporting are eliminated in combining the individual financial statements.

The University System is an agency of the State of Texas and its financial records reflect compliance with applicable State statutes and regulations. The significant accounting policies followed by the University System in maintaining accounts and in the preparation of the combined primary financial statements are in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the AICPA Industry Audit Guide Audits of Colleges and Universities, 1973, as amended by AICPA Statement of Position (SOP) 74-8, Financial Accounting and Reporting by Colleges and Universities.

Attached to this Official Statement as "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM," is the most recent unaudited Combined Primary Financial Statements of The University of Texas System (with the relevant portion of the Notes to the Combined Primary Financial Statements), for the University System's fiscal year ended August 31, 1995, excerpted from the 1995 Annual Report of The University of Texas System. The University System's unaudited Primary Financial Statements set forth as APPENDIX C consist of the Combined Balance Sheet as of August 31, 1995, the Combined Statement of Changes in Fund Balances for the Year Ended August 31, 1995, and the Combined Statement of Current Funds Revenues and Expenditures for the Year Ended August 31, 1995. While listed as an asset on the Combined Balance Sheets included in the University System's unaudited primary financial statements, the Permanent University Fund is a public endowment the corpus of which must be forever kept intact.

Following is a summary of the revenues, expenditures and fund balances derived from the unaudited primary financial statements of the University System for each of the most recent five fiscal years.

Current Funds

Current funds are funds expendable for current operating purposes. Within the current funds group, funds are segregated between unrestricted and restricted. The current funds revenues and expenditures described below are derived from the Combined Statement of Current Funds Revenues and Expenditures included in the University System's unaudited primary financial statements for each of the fiscal years indicated. This statement, prepared under the principles of fund accounting, presents the financial activities of current funds related to the applicable reporting period and does not purport to present the results of operations or the net income or loss for the period. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements."

Unrestricted Current Funds Revenues. Unrestricted funds are funds over which the Board retains full control in achieving institutional purposes. Not all unrestricted funds constitute Pledged Revenues. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM." The unrestricted current funds revenues described below are derived from the unaudited primary financial statements of the University System for each of the fiscal years in the five year period ended August 31, 1995. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY

OF TEXAS SYSTEM—Financial Statements." Unrestricted current funds revenues are categorized by source. Each category of unrestricted current funds revenues presented below as a percent of total sources of such revenues is as follows:

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Sources of Revenues					
Tuition and Fees	7.45%	7.51%	8.39%	8.77%	8.73%
State Appropriations	44.43	41.68	38.92	39.56	36.68
Gifts, Grants and Contracts	3.76	3.85	4.63	5.46	8.22
Available University Fund Income	3.34	3.08	2.95	2.60	2.46
Endowment/Investment Income	0.01	0.09	0.07	0.56	0.41
Sales and Services	27.13	28.48	29.70	26.81	25.95
Professional Fees	10.15	11.00	11.55	13.08	14.21
Other Interest Income	2.18	1.91	1.35	1.24	1.62
Other Sources	<u>1.55</u>	<u>2.40</u>	<u>2.44</u>	<u>1.92</u>	<u>1.72</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Tuition and Fees. Each component institution granting degrees charges tuition and fees as set by the State Legislature and the Board under Chapters 54 and 55 of the Texas Education Code. Pursuant to legislation passed in 1985 and amended in 1991, the undergraduate tuition charged to State residents increased over a seven-year period beginning with the Fall Semester, 1989 from \$18 per semester credit hour to \$30. State law provides for future increases in undergraduate tuition applicable to State residents to the following levels: \$32 for the 1996-97 academic year. In 1995, the State Legislature passed legislation that will (i) permit future increases in undergraduate tuition applicable to state residents to \$34 per semester credit hour for the 1997-98 academic year, \$36 per semester credit hour for the 1998-99 academic year, \$38 per semester credit hour for the 1999-2000 academic year, and \$40 per semester credit hour for the 2000-01 academic year; (ii) permit tuition of a nonresident student at a general academic teaching institution or medical and dental unit to be increased to an amount equal to the average of the nonresident undergraduate tuition charged to a resident of Texas at a public state university in each of the five most populous states other than Texas (the amount of which would be computed by the Coordinating Board for each academic year); and (iii) permit the maximum student service fee (such fee being the Pledged General Fee) to be increased to an amount per semester credit hour not to exceed the tuition rate per semester credit hour for a resident student of a general academic teaching institution. For the academic year 1995-96, the Coordinating Board has computed \$222 per semester credit hour for nonresident undergraduate tuition.

The following table sets forth the total of tuition and fees (net of refunds) collected during each of the five most recent fiscal years at all component institutions of the University System:

Tuition and Fees (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$187.5	\$212.3	\$256.5	\$290.4	\$307.9

State Appropriations. The University System receives support annually from the State through general revenue fund appropriations made by the State Legislature. For the fiscal year ended August 31, 1995, 36.68% of unrestricted current funds revenues were from State general revenue fund appropriations. The Board has adopted a budget for fiscal year 1996 that includes appropriations from the State general revenue fund of \$1.161 billion, which amount constitutes 33.2% of 1996 budgeted unrestricted current funds revenues.

Levels of continued State support to the University System are dependent on results of biennial legislative sessions. The State Legislature adopted a budget for the State for the 1996-1997 biennium beginning September 1, 1995, which appropriates approximately \$1.161 billion for

the University System from the general revenue fund for fiscal year 1996 and approximately \$1.167 billion for fiscal year 1997.

The University System has no assurance that the State Legislature will continue to appropriate to it the general revenue funds of the State at the same levels as in previous years. Future levels of State support are dependent upon the ability and willingness of the State Legislature to make appropriations to the University System taking into consideration the availability of financial resources and other potential uses of such resources. The table below sets forth the State general revenue fund appropriations to the University System included in unrestricted current funds revenues during each of the five most recent fiscal years:

**State Appropriations
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$1,118.7	\$1,178.9	\$1,189.2	\$1,310.5	\$1,293.3

Gifts, Grants and Contracts. The University System receives federal, state and local grants and contracts for research which incorporate an overhead component for use in defraying operating expenses. This overhead component is treated as unrestricted current funds revenues while the balance of the grant or contract is treated as restricted current funds revenues. Indirect cost recovery rates used in calculating the overhead component are negotiated annually with the appropriate governmental agency for each component institution. In addition, unrestricted gifts are received by each institution. The following table sets forth the total of the overhead component received on governmental research grants and contracts, the portion of restricted gifts or grants from nongovernmental sources expended for current operations and the amount of unrestricted gifts received during each of the five most recent fiscal years by the University System:

**Gifts, Grants and Contracts
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>
\$94.6	\$108.8	\$141.3	\$180.9	\$289.8

⁽¹⁾ The increase for fiscal year 1995 was primarily due to a \$126.6 million one-year contract between The University of Texas Medical Branch at Galveston and the Texas Department of Criminal Justice for medical treatment of inmates.

Available University Fund Income. The Available University Fund is established by the State Constitution and consists of all dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administrative expenses) including the net income attributable to the surface of Permanent University Fund lands. Two-thirds of the total amounts comprising the Available University Fund (after administrative expenses) are constitutionally appropriated to the University System first, for the payment of annual debt service on Permanent University Fund bonds and notes issued by the Board, and second, for the support and maintenance of The University of Texas at Austin and System Administration. The following table sets forth the amounts so appropriated for The University of Texas at Austin and System Administration during each of the five most recent fiscal years:

**Available University Fund Income
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$84.0	\$87.2	\$90.0	\$86.3	\$86.7

Endowment/Investment Income. In fiscal year 1994, the University System combined endowment income with investment income for financial statement reporting. While endowment income is comprised of both restricted and unrestricted earnings, most of the endowment income

is restricted. Investment income represents the income earned on funds of the institutions that are invested in securities with a maturity greater than one year. For funds of the institutions that are invested in securities with a maturity less than a year, the income is reflected as other interest income (See "Other Interest Income" below). The following table sets forth the amount of unrestricted endowment income for the fiscal years 1991 through 1993, and endowment income and investment income for fiscal years 1994 and 1995. For fiscal years 1994 and 1995, the endowment income was \$3.5 million and \$1.7 million respectively.

**Endowment/Investment Income
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$0.2	\$2.6	\$2.0	\$18.4	\$14.5

Sales and Services. The University System operates hospitals in Galveston, Houston and Tyler. Revenue generated at the hospitals from private, public and third-party payers represents a significant form of income to the University System. Other educational activities and auxiliary enterprises also generate revenue which is unrestricted. The following table sets forth the amount of such revenue received during each of the five most recent fiscal years:

**Sales and Services
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$683.2	\$805.6	\$907.4	\$888.2	\$915.2

Professional Fees. At each Health Institution of the University System, a medical Practice Plan has been adopted by the Board covering professional revenues generated by the faculty. Practice Plan revenues are spent for the operational costs of clinical services, including salaries of the medical staff and constitutes Practice Plan Funds. The following table sets forth the Practice Plan revenues received from professional fees during each of the five most recent fiscal years:

**Professional Fees
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$255.5	\$311.3	\$353.0	\$433.2	\$501.1

Other Interest Income. Each University System component institution generates interest from the investment of cash under an investment policy adopted by the Board in accordance with State law. (See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Program—The Short/Intermediate Term Fund"). Other Interest Income represents the income earned on funds of the institutions that have a maturity of less than one year. The following table sets forth such interest income received by the University System during each of the five most recent fiscal years:

**Other Interest Income
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>
\$54.9	\$53.9	\$41.2	\$41.1	\$57.2

⁽¹⁾ The increase for fiscal year 1995 was due to a change in the maturity structure of the investments from fiscal year 1994. In fiscal year 1994, 19% of the institutions funds were invested in securities with a maturity of less than one year or cash and 81% were invested in securities with a maturity greater than one year. In fiscal year 1995, the ratio was 42% short term securities and 52% long term securities. This change in maturity structure is reflected by more income to the Other Interest Income category and less income to the Endowment/Investment Income category.

Other Sources. All miscellaneous revenues including rents, fees, fines, sales and other receipts not categorized above have been grouped together as "other sources." The following table sets forth the amount of such miscellaneous revenues received by the University System during each of the five most recent fiscal years:

Other Sources (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$39.0	\$68.0	\$74.7	\$63.7	\$60.6

Total Unrestricted Current Funds Revenues. The following table sets forth the total of all unrestricted current funds revenues received by the University System during each of the five most recent fiscal years:

Total Unrestricted Current Funds Revenues (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$2,517.7	\$2,828.5	\$3,055.2	\$3,312.7	\$3,526.4

Total Pledged Unrestricted Current Funds Revenues. The following table sets forth the amount of unrestricted current funds revenues that constituted Pledged Revenues received by the University System during each of the five most recent fiscal years:

Total Pledged Unrestricted Current Funds Revenues⁽¹⁾ (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994⁽²⁾</u>	<u>1995⁽³⁾</u>
\$602.8	\$698.5	\$784.8	\$1,024.2	\$1,512.6

⁽¹⁾ Does not include \$4.5 million in Pledged Practice Plan Funds which also constitute Pledged Revenues.

⁽²⁾ Includes the Pledged General Tuition, which became a component of Pledged Revenues on October 8, 1993.

⁽³⁾ The increase in fiscal year 1995 is the result of the accounting for hospital revenues of the M.D. Anderson Cancer Center as Unrestricted Current Funds Revenues upon the retirement of certain Prior Encumbered Obligations relating to the Cancer Center.

Unrestricted Current Funds Expenditures. Unrestricted current funds expenditures represent the cost incurred for goods and services used in the conduct of the University System's operations. Such expenditures include the acquisition cost of capital assets, such as equipment and library books, to the extent unrestricted current funds are budgeted for and used by operating departments for such purposes. The unrestricted current funds expenditures are derived from the unaudited primary financial statements of the University System for each of the fiscal years in the five-year period ended August 31, 1995. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements." Unrestricted current fund expenditures are categorized by function. Each

category of unrestricted current funds expenditures and mandatory transfers, which are presented below as a percent of total expenditures by function [and mandatory transfers], is as follows:

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Expenditures					
Education and General Instruction	35.16%	34.64%	33.46%	34.33%	33.42%
Research	5.78	5.40	5.00	4.58	4.16
Public Service	1.09	1.20	1.33	1.63	1.56
Academic Support	4.57	4.48	4.35	4.11	4.06
Student Services	1.27	1.26	1.33	1.39	1.40
Institutional Support	8.07	7.46	8.43	8.90	9.00
Operations and Maintenance of Plant	10.35	9.39	9.86	8.61	8.12
Scholarships and Fellowships	1.70	1.75	1.77	1.84	1.86
Hospitals	23.16	26.01	26.39	27.05	29.27
Auxiliary Enterprises	7.14	6.76	6.45	6.04	5.60
Mandatory Transfers ⁽¹⁾	<u>1.71</u>	<u>1.65</u>	<u>1.63</u>	<u>1.52</u>	<u>1.55</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Includes debt service payments on Parity Debt and Prior Encumbered Obligations. See "Mandatory Transfers" below.

Instruction. This category includes expenditures for all activities that are part of the University System's instructional programs. Expenditures are included for credit and non-credit courses, for academic, vocational and technical instruction, for remedial and tutorial instruction and for regular, special and extension sessions. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Instruction (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$864.2	\$924.3	\$1,004.0	\$1,085.7	\$1,126.0

Research. This category includes all expenditures for research. Expenditures may be either internally or externally sponsored. The following table presents a history of these expenditures by the University System for each of the five most recent fiscal years:

Research (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$142.0	\$144.2	\$150.1	\$144.8	\$140.2

Public Service. This category includes funds expended primarily for non-instructional services beneficial to individuals and groups which are not part of the University System. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Public Service (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$26.9	\$32.0	\$40.1	\$51.5	\$52.6

Academic Support. This category includes funds expended primarily to provide support services for instruction, research and public service. Expenditures included in this category are those supporting the operation of libraries, museums and galleries, as well as those for academic administration, technical support and curriculum development. The following table presents a history of these expenditures for each of the five most recent fiscal years:

**Academic Support
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$112.3	\$119.5	\$130.5	\$130.0	\$136.6

Student Services. This category includes funds expended for those activities whose primary purpose is to contribute to the student's emotional and physical well-being and intellectual, cultural and social development outside the context of the formal instructional program. The following table presents a history of these expenditures for each of the five most recent fiscal years:

**Student Services
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$31.3	\$33.7	\$39.9	\$44.0	\$47.3

Institutional Support. This category includes expenditures of the offices of admissions and registrar, and for administration, planning, fiscal operations, data processing, personnel and records and logistical activities. The following table presents a history of these expenditures for each of the five most recent fiscal years:

**Institutional Support
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$198.3	\$199.1	\$253.0	\$281.4	\$303.1

Operations and Maintenance of Plant. This category includes all expenditures of unrestricted current funds for the operation and maintenance of physical plant, net of amounts charged to auxiliary enterprises, hospitals and independent operations. The following table presents a history of these expenditures for each of the five most recent fiscal years:

**Operations and Maintenance of Plant
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$254.3	\$250.7	\$295.9	\$272.3	\$273.6

Scholarships and Fellowships. This category includes expenditures for scholarships and fellowships, including tuition remissions and exemptions in the forms of grants to students resulting either from selection by component institutions of the University System or from an entitlement program. The following table presents a history of these expenditures for each of the five most recent fiscal years:

**Scholarships and Fellowships
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$41.9	\$46.7	\$53.0	\$58.2	\$62.8

Hospitals. This category includes all expenditures associated with patient care operations of the University System's hospitals as well as expenditures for health clinics that are part of the hospitals, including nursing and other professional services, fiscal services, physical plant operations and institutional support, both direct and indirect. The following table presents a history of these expenditures for each of five most recent fiscal years:

Hospitals (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>
\$569.4	\$694.2	\$791.9	\$855.5	\$986.1

⁽¹⁾ [TO COME]

Auxiliary Enterprises. This category includes all expenditures relating to the operation of auxiliary enterprises, including expenditures for operation and maintenance of plant and institutional support. The following table presents a history of these expenditures for each of the five most recent fiscal years:

Auxiliary Enterprises (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$175.6	\$180.3	\$193.5	\$191.2	\$188.6

Mandatory Transfers. This category includes transfers from the unrestricted current funds group to other fund groups primarily for the payment of debt service on Parity Debt and Prior Encumbered Obligations, as well as required provisions for renewals and replacements of plant. The following table presents a history of these transfers for each of the five most recent fiscal years:

Mandatory Transfers (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$42.1	\$44.1	\$49.0	\$48.1	\$52.2

Total Unrestricted Current Funds Expenditures and Mandatory Transfers. The following table presents a history of the total of all categories of unrestricted current funds expenditures and mandatory transfers for each of the five most recent fiscal years:

Total Unrestricted Current Funds Expenditures and Mandatory Transfers (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$2,458.2	\$2,668.7	\$3,001.0	\$3,162.7	\$3,369.1

Restricted Current Funds Revenues and Expenditures. Restricted current funds revenues refer to resources that have been externally restricted and may only be utilized in accordance with the purposes stipulated by the source of such funds. Such revenues include, among others, grants and contracts from governmental and private sources (other than the overhead component which is treated as unrestricted current funds revenue), restricted gifts and income on restricted endowment funds. Receipts from these resources are reported as revenues only when expended. The following table presents a history of total restricted current funds revenues and expenditures for each of the five most recent fiscal years:

**Total Restricted Current Funds
Revenues and Expenditures
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$555.8	\$604.4	\$689.0	\$717.6	\$773.8

Fund Balances

Fund balances represent the difference between total assets and total liabilities and are reported by fund group. The fund balances described below are derived from the Combined Balance Sheet included in the University System's unaudited primary financial statements for each of the fiscal years indicated. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Financial Statements". The Combined Statement of Changes in Fund Balances for the fiscal year ended August 31, 1995, included in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM," is essentially a statement of changes in financial position between reporting dates and is presented for all fund groups.

Unrestricted Current Funds. Unrestricted current funds balances represent the accumulation of the excess of unrestricted current funds revenues over unrestricted current funds expenditures and transfers. This amount is available for future operating purposes or other use as determined by the Board to the extent that such amount exceeds the amount reported as Unrestricted-Reserves. See the Combined Balance Sheet included in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM" for details for the year ended August 31, 1995. The total fund balance of all categories of unrestricted current funds (which relates to the revenues and expenditures presented above) as of the end of each of the five most recent fiscal years was as follows:

**Unrestricted Current Funds Balances
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$719.9	\$783.2	\$770.6	\$867.7	\$989.4

Restricted Current Funds. Restricted current funds represent unexpended balances of funds externally restricted to specific operating purposes. Such funds originate from income on restricted endowment funds, gifts whose donors have placed limitations on their use and grants and contracts from private or governmental sources for research, training and other sponsored programs (other than the overhead component which is treated as unrestricted current funds). The total fund balance of restricted current funds (which relates to the revenues and expenditures presented above) as of the end of each of the five most recent fiscal years was as follows:

**Restricted Current Funds Balances
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$346.4	\$355.7	\$388.5	\$426.8	\$437.4

Loan Funds. Loan funds balances represent student loans or funds available for loans to students administered by the University System pursuant to federal and private programs. The majority of such loans are federally funded primarily through the Perkins Loan Program which succeeded the National Direct Student Loan Program. The balance of such loans is funded by the University System either through private sources or from student tuition as authorized by State law. The loan funds balance as of the end of each of the five most recent fiscal years was as follows:

Loan Funds (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$89.6	\$95.7	\$100.9	\$108.7	\$114.7

Endowment and Similar Funds (State—Permanent University Fund). While listed as an asset on the Combined Balance Sheets included in the University System's unaudited primary financial statements, the Permanent University Fund is a public endowment the corpus of which must be forever kept intact. Only certain revenues derived from the investment of the corpus of the Permanent University Fund comprise the Available University Fund and are appropriated for use by the University System. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund." For more information regarding the Permanent University Fund, see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Permanent University Fund" and "—Investment Policy and Procedure—Investment of Permanent University Fund."

Endowment and Similar Funds (Other than State). The Other than State category of endowment funds consist primarily of the Long Term Fund (formerly known as the Common Trust Fund) and other private endowments. The Long Term Fund is a pooled fund for the investment of private endowments donated to benefit various programs and purposes at the fifteen institutions comprising the University System. The fund was established by the Board in 1948 and provides for diversification of security holdings and enhancement of investment management. It encompasses the investment of approximately 90% of the University System's private endowment. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Programs—The Long Term Fund."

Other private endowments consist primarily of (a) approximately 220 separately invested accounts where the endowment asset donated is unique, such as a real estate interest, or where the donor has placed investment restrictions on the asset so as to preclude its inclusion in the Long Term Fund, and (b) the Special Fund for John Sealy Hospital which has been jointly controlled by the Board and the Sealy and Smith Foundation since 1927. The endowment and similar funds (other than State) balances as of the end of each of the five most recent fiscal years was as follows:

Endowment and Similar Funds (Other than State) (in Millions)				
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$848.6	\$1,024.8	\$1,163.2	\$1,295.3	\$1,378.7

Of the \$1,378.7 shown for 1995, \$331.1 million is classified as "Funds Functioning as Endowment," which means that such funds have been designated as endowments by the Board and are subject to being redesignated by the Board and made available for other lawful purposes.

Annuity and Life Income Funds. Annuity funds and life income funds are separate fund groups which are combined for reporting purposes. Annuity funds are those funds donated to the University System on the condition that the University System pay certain amounts periodically to the donor or other designated individuals for a specific period of time. At the end of the payment period, the principal amount of the annuity fund is transferred to the fund group specified by the donor or, in the absence of restrictions, to unrestricted funds. Life income funds consist mainly of charitable remainder trusts for which the University System is trustee and/or remainderman and pays distributions in agreed upon amounts to beneficiaries. Annuity and life income balances as of the end of each of the five most recent fiscal years were as follows:

Annuity and Life Income Funds
(in Millions)

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$10.6	\$13.1	\$12.6	\$13.6	\$17.0

Available University Fund. The Available University Fund is established by the State Constitution and consists of all dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administrative expenses) including the net income attributable to the surface of Permanent University Fund lands. Two-thirds of the total amounts comprising the Available University Fund (after administrative expenses) are constitutionally appropriated to the University System first, for the payment of annual debt service on Permanent University Fund bonds and notes issued by the Board, and second, for the support and maintenance of The University of Texas at Austin and System Administration.

The Available University Fund balances appropriated to the University System as of the end of each of the five most recent fiscal years were as follows:

Available University Fund
(in Millions)

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$83.4	\$95.2	\$88.5	\$92.1	\$100.0

A portion of the fund balance for each year shown above represented accrued income attributable to The Texas A&M University System. Of the \$100.0 million balance of the Available University Fund on August 31, 1995, approximately \$16.4 million represented accrued income attributable to The Texas A&M University System.

Plant Funds. The University System reports its Plant Funds in the following four categories: Unexpended Plant Funds; Renewals and Replacements Funds; Retirement of Indebtedness Funds; and Investment in Plant Funds.

Unexpended Plant Funds. Unexpended plant funds are unexpended funds derived from various sources to finance the acquisition of long-term plant assets and the associated liabilities. This category does not include construction in progress which is included under "Plant Funds—Investment in Plant Funds" below. The unexpended plant fund balance as of the end of each of the five most recent fiscal years was as follows:

Unexpended Plant Funds
(in Millions)

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>
\$209.6	\$232.2	\$256.3	\$256.5	\$384.4

⁽¹⁾ The increase for fiscal year 1995 was primarily due to the issuance of Parity Debt during such fiscal year. In June, 1995, approximately \$35 million of new money proceeds were generated pursuant to the issuance of the Board's Revenue Financing System Bonds, Series 1995A and only \$2.1 million of the proceeds were spent by August 31, 1995. In addition, Commercial Paper Notes in the amount of \$55 million were issued during the last two months of fiscal year 1995 with only \$5.2 million of the proceeds spent by year end. The private gifts, grants and contracts also were higher for fiscal year 1995 (\$83.3 million) than 1994 (\$39.9 million).

Renewals and Replacements Funds. These funds provide for the renewal and replacement of plant fund assets and their associated liabilities as distinguished from additions and improvements to plant. The renewals and replacements fund balance as of the end of each of the five most recent fiscal years was as follows:

**Renewals and Replacements Funds
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993⁽¹⁾</u>	<u>1994</u>	<u>1995</u>
\$5.1	\$6.1	\$3.2	\$5.6	\$4.4

Retirement of Indebtedness Funds. Funds for the retirement of indebtedness represent those funds held by the University System in interest and sinking funds and reserve funds [for other than Permanent University Fund bonds]. The retirement of indebtedness fund balance as of the end of each of the five most recent fiscal years was as follows:

**Retirement of Indebtedness Funds
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994⁽¹⁾</u>	<u>1995</u>
\$41.8	\$43.4	\$40.7	\$5.2	\$5.2

⁽¹⁾ The significant decline in the fund balance between fiscal year 1993 and fiscal year 1994 is the result of the release of certain reserve funds in connection with the retirement of Prior Encumbered Obligations relating to the M.D. Anderson Cancer Center.

Investment in Plant Funds. Investment in plant represents the long-term plant and equipment assets of the University System and their associated liabilities. The investment in plant fund balance as of the end of each of the five most recent fiscal years was as follows:

**Investment in Plant Funds
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$3,274.5	\$3,480.8	\$3,758.5	\$3,951.8	\$4,017.5

At August 31, 1995, gross plant assets totaled \$5,175.8 million. Of this total, 51.2% was in the form of buildings, 28.1% in equipment, 6.0% in library books, 5.5% in construction in progress and 9.2% in land and other. Deferred maintenance requirements at the University System are currently estimated to be less than 1.0% of the replacement cost of plant assets.

Agency Funds. Agency funds represent funds held by the University System as custodian or agent for individual students, faculty, staff members and organizations. The total agency funds assets as of the end of each of the five most recent fiscal years was as follows:

**Agency Funds
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>
\$173.0	\$24.6	\$27.8	\$44.6	\$192.3

⁽¹⁾ The increase in fiscal year 1995 is the result of changes in applicable accounting standards which required the University System to include in its financial statements the assets of a defined contribution retirement plan for the physicians at the M.D. Anderson Cancer Center.

Agency fund assets are offset by liabilities (recognizing that funds are held in custody for others) and miscellaneous payables, with the result that agency funds balances are zero in any given fiscal year.

Permanent University Fund

The Permanent University Fund is a public endowment contributing to the support of the University System (other than The University of Texas-Pan American and The University of Texas at Brownsville) and The Texas A&M University System. The State Constitution of 1876 established the Permanent University Fund through the appropriation of land grants previously given to The University of Texas plus an additional one million acres. The land grants to the Permanent University Fund were completed in 1883. As of August 31, 1995, the Permanent University Fund contained 2,109,109.87 acres located in 19 West Texas counties.

As interpreted by the State Supreme Court and by the State Attorney General, the Permanent University Fund must be forever kept intact, and the proceeds from oil, gas, sulphur and water royalties, together with realized gains on investments, rentals on mineral leases, lease bonuses and all amounts received from the sale of land must be added to the corpus of the Permanent University Fund. All other dividends, interest and other income of the Permanent University Fund (net of Permanent University Fund administration expenses) represent the Available University Fund. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund." For information regarding the investment policy relating to the Permanent University Fund, see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment of the Permanent University Fund." *The funds held in the Permanent University Fund are not available to pay debt service on the Bonds.*

The Permanent University Fund's balance as of the end of each of the five most recent fiscal years was as follows:

**Endowment and Similar Funds
State (Permanent University Fund)
(in Millions)**

<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
\$3,536.5	\$3,666.9	\$4,053.4	\$4,222.5	\$4,385.9

Investment Policy and Procedures

Management of Investments. The Board is responsible for investment of University System funds held outside the State Treasury and has provided for centralized investment management through the Office of Asset Management of the University System. The Vice Chancellor for Asset Management serves as the chief investment officer of the University System and supervises the Office of Asset Management. Investments are managed both internally, by securities analysts, portfolio managers and accountants employed by the Office of Asset Management, and externally, by unaffiliated investment managers.

The Board has a standing Asset Management Committee (the "Asset Management Committee") that oversees various investment functions relating to endowments and similar funds. The Asset Management Committee is comprised of the Chairman of the Board and such members of the Board as are appointed thereto by the Chairman. The Board additionally appoints an Investment Advisory Committee (the "Investment Advisory Committee") of six citizen members whose particular qualifications and experience qualify them, in the opinion of the Board, to advise the Chancellor and Vice Chancellor for Asset Management with respect to investment policy, planning and performance evaluations. The Investment Advisory Committee receives quarterly reports regarding the allocation of assets within the various investment programs for University System funds held outside the State Treasury. The Board also utilizes a nationally recognized performance measurement service to evaluate and analyze the investment results of the endowment funds with other public and private funds having similar objectives.

Proposed Changes in Management of Investments. In 1995, the State Legislature authorized the Board to organize a nonprofit corporation controlled by the Board and to contract with such corporation for the investment of funds managed by the Board, including the Permanent University Fund. Any such corporation must be dedicated solely to managing the investment of funds under the control and management of the Board. The Board must approve the articles of incorporation, bylaws, investment policies and code of ethics of such corporation and must appoint the directors (and the audit and ethics committee) of such corporation; provided, that the board of directors of such corporation must have nine members, including the Chancellor of the University System, at least three members of

the Board and at least one member selected from a list submitted by the Board of Regents of The Texas A&M University System. If the Board contracts with any such corporation for the investment of the Permanent University Fund, the Board must provide for an annual financial audit of the Permanent University Fund. In addition, such corporation must provide quarterly reports to the Board on matters required by the Board.

The Asset Management Committee has recommended, and it is expected that in February 1996 the Board will formally consider, contracting with such a corporation for the investment management of all funds under the Board's control and management. In the event that such an investment structure is implemented, it is expected that the Board will dissolve the Investment Advisory Committee, the Asset Management Committee and the Office of Asset Management and transfer existing investment management and operating staff to such corporation. Such action would not, however, relieve the Board from its responsibility for management of its funds. All operating costs of such a corporation will ultimately be paid by the Board through an annual management fee to be charged by the corporation. It is expected that any nonprofit corporation organized by the Board for such purpose would apply for and receive a determination from the Internal Revenue Service that it constitutes a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986.

Authorized Investments. University System funds are invested in accordance with State law and the written investment policies of the Board. State law provides that the Board may invest University System funds subject only to the requirement that investments be made with the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital. The Board has adopted separate written policies relating to the investment of separate categories of University System funds, each of which contains the following restrictions, among others: (i) generally, securities may not be purchased on margin or leverage; (ii) generally, transactions in short sales are not permitted; (iii) commercial paper may not be purchased unless it is rated in the two highest quality classes by Moody's Investors Service ("Moody's") or Standard & Poor's, a division of The McGraw-Hill Companies ("S&P"); (iv) repurchase agreements and reverse purchase agreements must be with a domestic dealer selected by the Federal Reserve as a primary dealer in U.S. Treasury securities; or a bank that is associated with a holding company meeting the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps; and (v) transactions in derivative instruments (other than those received as part of an investment unit) may occur only as part of an approved hedging, asset allocation, or other program; provided, that for purposes of this limitation, derivatives are defined as instruments whose value is derived, in whole or part, from the value of any one or more underlying assets, or index of assets (such as stocks, bonds, commodities, interest rates, and currencies) and evidenced by forward, futures, swap, cap, floor, option, and other applicable contracts.

Investment Programs. To facilitate the investment of University System funds, the Board has (i) created two separate pooled investment funds, designated as the Long Term Fund (the "LTF") and the Short/Intermediate Term Fund (the "S/ITF"), and (ii) approved a money market mutual fund, designated as the Short Term Fund (the "STF"). Set forth below is additional information regarding the LTF, the S/ITF and the STF.

The Long Term Fund. The LTF is a long term pooled investment fund for the collective investment of all endowment and other long term funds of component institutions of the University System (other than endowment funds held in the Permanent University Fund and funds subject to use restrictions that are inconsistent with investment in the LTF). The participation of the component institutions of the University System in the LTF is evidenced by the ownership of units in the LTF. The investment objectives of the LTF are to (i) preserve the purchasing power of LTF principal and distributions stream by maximizing inflation adjusted total return and (ii) outperform relevant capital markets. Pursuant to a written policy of the Board, oversight of the LTF resides with the Asset Management Committee. In addition, the Board's policy imposes the following specific restrictions, among others, on the investment of funds comprising the LTF: (1) with respect to the LTF's fixed income portfolio, no more than 1% of the book value of the LTF may be invested in bonds or preferred stocks rated below Baa3 or BBB- by Moody's or S&P, respectively, unrated bonds, and unrated preferred stocks that, in each case, have not been reviewed by the Asset Management Committee; and (2) with respect to the LTF's equities portfolio, no more than 5% of the voting securities of a corporation may be owned unless specifically authorized by the Vice Chancellor for Asset Management. The Board's policy also requires that the LTF's fixed income portfolio have an average investment quality equivalent to a rating of A1 or A+ by Moody's or S&P, respectively.

Asset allocation within the LTF is the responsibility of the Asset Management Committee, and asset allocation targets are subject to change from time to time based on the economic and investment outlook.

The asset classes within the LTF, the long term targeted allocation percentage for each asset class and the actual asset allocation percentages as of November 30, 1995 are set forth below.

<u>Asset Class</u>	<u>Long Term Target</u>	<u>Percentage Allocation (as of 11/30/95)</u>
Cash and Cash Equivalents	0.0%	7.1%
Fixed Income	20.0%	32.3%
Equities	50.0%	54.6%
Alternative Assets ⁽¹⁾	<u>30.0%</u>	<u>6.0%</u>
Total Assets	100.0%	100.0%

⁽¹⁾ The term "Alternative Assets" encompasses the following: (i) alternative marketable investments, which include hedge funds, arbitrage and special situation funds, high yield bonds, distressed obligations and emerging markets whose underlying securities are traded on public exchanges; (ii) alternative illiquid investments, which include private equity and buyout funds, and privately held venture capital interests; and (iii) inflation hedging assets, which include, among other things, oil and gas interests, real estate and commodities.

As of November 30, 1995, approximately 60% of the investment of LTF funds was managed internally and approximately 40% was managed externally by unaffiliated investment managers. The book value of the total portfolio of investments held in the LTF as of November 30, 1995 was \$1,439.8 million and the market value was \$1,621.5 million, indicating an unrealized gain on that date of \$181.7 million.

Distributions from the LTF are paid quarterly to the component institutions of the University System on a per unit basis in accordance with a written policy of the Board and the Uniform Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended.

The Short/Intermediate Term Fund. The S/ITF is a short/intermediate term pooled investment fund established by the Board for the collective investment of funds (other than endowment and other long term funds) of the component institutions of the University System. The funds in the S/ITF provide liquidity support for the Commercial Paper Notes (as hereinafter defined). See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs." Investment in the S/ITF is discretionary and component institutions of the University System control the allocation of funds among three investment options: the S/ITF, the STF and collateralized bank and savings and loan certificates of deposit. The participation of the component institutions of the University System in the S/ITF is evidenced by the ownership of units in the S/ITF. Units in the S/ITF are acquired at the net asset value per unit of the S/ITF on the date of acquisition and may be liquidated on a weekly basis at the net asset value per unit of the S/ITF on the date of liquidation. The investment objectives of the S/ITF are to (i) generate a high rate of income and (ii) produce capital appreciation when consistent with the reasonable preservation of principal and the maintenance of adequate liquidity. Pursuant to a written policy of the Board the following specific restrictions apply to the investment of funds comprising the S/ITF: (1) all investments in bonds or other evidence of indebtedness shall be issued by or guaranteed by the U.S. government or U.S. government agencies or instrumentalities, except for commercial paper, repurchase agreements and reverse repurchase agreements that otherwise constitute authorized investments; and (2) no preferred or common stocks or other ownership interests or securities convertible into ownership interests may be purchased.

The Board's policy does not specify asset allocation targets for the investment of funds in the S/ITF. Set forth in the table below, however, is a quarterly breakdown of the composition of the S/ITF since November 30, 1994.

<u>Qtr Ending</u>	<u>Cash</u>	<u>Commercial Paper</u>	<u>Govt. & Agencies</u>	<u>Mortgage Backed</u>
11/30/94	8.2%	9.0%	63.6%	19.2%
2/28/95	24.2%	4.5%	53.0%	18.3%
5/31/95	29.1%	4.6%	49.0%	17.3%
8/31/95	20.2%	13.3%	49.9%	16.6%
11/30/95	17.4%	7.9%	56.4%	18.3%

As of November 30, 1995, 100% of the investment of S/ITF funds was managed internally. The book value of the total portfolio of investments held in the S/ITF as of November 30, 1995 was \$1,252.2 million and the market value was \$1,256.2 million, indicating an unrealized gain on that date of \$4.0 million. The Board does not anticipate the need to sell any investments in the S/ITF prior to their maturity to meet the liquidity needs of the component institutions of the University System or the Commercial Paper Notes.

The Short Term Fund. The STF is the designation given by the University System administration to the money market mutual fund known as the Financial Square Prime Obligations Fund, which the Board has approved as an investment for University System funds. The Financial Square Prime Obligations Fund is a series of the Goldman Sachs Money Market Trust, a business trust organized under the laws of the Commonwealth of Massachusetts on December 6, 1978. The component institutions of the University System and University System administration utilize the STF as an investment option when overnight liquidity is the primary investment objective. As of November 30, 1995, the amount of University System funds invested in the STF was \$358 million. As of November 30, 1995, the Financial Square Prime Obligations Fund contained assets with a market value of \$4,440.2 million.

Management of the Permanent University Fund. The Board has responsibility for investment of the Permanent University Fund. Pursuant to a written policy of the Board, specific investment decisions with respect to the Permanent University Fund are handled by the Office of Asset Management, as well as unaffiliated investment managers. In addition, the Board's policy imposes the following specific restrictions on the investment of funds comprising the Permanent University Fund: (i) corporate bonds and preferred stocks must be rated a minimum of Baa3 or BBB- by Moody's or S&P, respectively, when purchased unless approved by the Vice Chancellor for Asset Management; (ii) no more than 1% of the book value of the Permanent University Fund may be invested in bonds or preferred stocks rated below Baa3 or BBB- by Moody's and S&P, respectively, unrated bonds, and unrated preferred stocks that have been purchased but not reviewed by the Asset Management Committee may not exceed 1% of the book value of the Permanent University Fund; (iii) the weighted average maturity of the fixed income portfolio shall not exceed 17.5 years; and (iv) no more than 5% of the voting securities of a corporation may be owned unless specifically authorized by the Vice Chancellor for Asset Management.

Asset allocation within the Permanent University Fund is the responsibility of the Asset Management Committee, and asset allocation targets are subject to change from time to time based on the economic and security market outlook as well as income requirements. The asset classes within the Permanent University Fund, the long term targeted allocation percentages for each asset class and the actual allocation percentages as of November 30, 1995, are set forth below.

<u>Asset Class</u>	<u>Long Term Target</u>	<u>Percentage Allocation (as of 11/30/95)</u>
Unallocated funds	0%	0.1%
Fixed income securities	45%	48.8%
Equity securities	45%	46.6%
Alternative Assets	<u>10%</u>	<u>4.5%</u>
Total Assets	100%	100.00%

As of November 30, 1995, approximately 63.5% of the investment of Permanent University Fund funds was managed internally and approximately 36.5% was managed externally by unaffiliated investment managers. The book value of the total portfolio of investments held in the Permanent University Fund as of November 30, 1995 was \$4,374.2 million and the market value was \$4,956.9 million, indicating an unrealized gain on that date of \$582.7 million.

Amendment of Investment Policies and Procedures. The Board has the right to amend its policies and procedures relating to the management of investments, at its discretion and at any time, subject to applicable State law. The Office of Asset Management is expected to propose a revised Permanent University Fund investment policy to the Board in February 1996. The revised policy will recognize the Constitutional segregation of total investment return between income return, all of which must be distributed to the Available University Fund, and price return (realized and unrealized gains) which must be retained as Permanent University Fund corpus. The investment policy will also recognize the perpetual nature of the Permanent University Fund and stipulate two long term investment objectives (i) to increase distributable investment income over time at a minimum rate equal to inflation and (ii) to increase distributable income over the preceding year at a minimum rate equal to the rate of income growth produced by the capital markets. The policy will also stipulate a rebalancing of the Permanent University Fund's long term target asset allocations to increase diversification and investment opportunities in equities and alternative assets.

Management of Funds Held in the State Treasury. The Texas Education Code requires that the University System deposit into the State Treasury all funds except those derived from auxiliary enterprises and noninstructional services, agency funds, designated and restricted funds, endowment and other gift funds, and student loan funds. All such funds held in the State Treasury, including the Available University Fund and certain cash balances of the Permanent University Fund, are administered by the State Treasurer. The State Treasurer invests money in the State Treasury in authorized investments consistent with applicable law and the Texas State Treasury Investment Policy, dated August 1993. The State Treasurer pools funds within the State Treasury for investment purposes and allocates investment earnings on pooled funds proportionately among the various State agencies whose funds are so pooled. Currently, most pooled funds are invested in the following instruments: repurchase agreements; reverse repurchase agreements; obligations of the United States and its agencies and instrumentalities; commercial paper having the highest credit rating; and fully-collateralized deposits in authorized State depositories. Approximately 5% of the State Treasury pool is invested in derivative investments. All State Treasury investments are marked to market daily using an external financial service. The Board utilizes the State Treasury primarily as a depository and anticipates that all funds deposited in the State Treasury will be available upon request and will earn interest equal to an allocated share of investment earnings on pooled funds in the State Treasury. As of November 30, 1995, the amount of University System funds held by the State Treasury was \$122.2 million.

The State Treasurer, acting primarily through a special purpose trust company, also holds approximately 20 separate accounts outside of the State Treasury. The largest such account is a local government investment pool, known as TexPool, which was established in 1989 as an investment alternative for local governments in the State. The Board is not (and has never been) a participant in TexPool and none of the funds of the University System are invested by the State Treasury in TexPool.

Capital Improvements Planning and Authorization

Planning and authorization of University System capital improvements is governed by a six-year capital improvements program approved by the Board and administered by System Administration. The program approves

in principle the expenditure of funds from all sources for capital projects at all component institutions for construction, repair and rehabilitation, land acquisition, equipment and library materials. The program is based on requests for capital projects identified in component institution strategic plans which are reviewed by System Administration. In selecting proposed projects for approval under the program, first priority is given to projects correcting major deficiencies in physical assets supporting on-going programs or correcting deficiencies anticipated to exist as a result of estimated growth in student enrollment, patient care or research activity. Selection of projects for new programs is guided by each component institution's strategic plan and is further based upon a demonstration of overall institutional need for additional space as well as the need for the specific project proposed.

The capital improvements program is revised biennially by the Board. It was last revised in August 1995 to apply through fiscal year 2001, although interim special adjustments to the plan have been made in response to unanticipated needs and opportunities.

New construction projects in excess of \$300,000 and all major repair and rehabilitation projects in excess of \$600,000 approved in principle under the program require further approval during project development. Board approval is required for preliminary design plans and total project costs. Responsibility for the completion of plans is delegated by the Board to the Chancellor. In addition, approval from the Coordinating Board is also required (except for projects for The University of Texas at Austin that are predominantly funded with Permanent University Fund bond proceeds and projects excluded by law) prior to the award of any contracts. See "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM—Coordinating Board." Construction contracts for approved projects are awarded by the Board to the lowest responsible bidder. Construction is monitored by the Office of Facilities Planning and Construction at System Administration together with building committees at component institutions to insure completion of the project as approved.

Debt Management and Anticipated Financing

Responsibility for the management of University System debt obligations is centralized in the Office of Finance within the Office of Business Affairs. Debt is issued pursuant to University System debt capacity analyses and annual funding requirements in accordance with the capital improvements program. Issuance of debt requires approval of the Board and (except for Permanent University Fund bonds and notes) approval by the Texas Bond Review Board. As a general rule, the University System issues debt in large increments to finance system-wide capital improvement cash flow requirements in aggregate as opposed to financing on a project-by-project basis. In addition, the University System generally finances capital improvements initially with short-term debt to minimize debt service costs during construction periods. Such short-term debt is refinanced with long-term fixed rate debt when short-term facilities are fully utilized or during periods of low interest rates.

The University System anticipates that it will have additional borrowing needs to supplement funding for its capital improvements program. During the balance of fiscal year 1996, the University System anticipates borrowing \$40,000,000 under the Permanent University Fund bond program for capital expenditures. No other long term Parity Debt is anticipated to be issued in fiscal year 1996. Additional issuances of Parity Debt will continue to be made under the Revenue Financing System commercial paper program for equipment and construction needs. See "Financing Programs—Revenue Financing System" below. Under the H.E.A.F. bond program, the Board is authorized to issue bonds for The University of Texas—Pan American and The University of Texas at Brownsville. On December 14, 1995, \$26,000,000 of such bonds were sold for The University of Texas—Pan American. No additional H.E.A.F. bonds are anticipated to be sold through fiscal year 2005. See "Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds" below.

Financing Programs. Article VII, Section 18 of the State Constitution provides that, except for cases of demonstrated need and upon a vote of two-thirds of each house of the State Legislature, and except in cases of fire or natural disaster, component institutions of the University System (except The University of Texas—Pan American and The University of Texas at Brownsville) may not receive any funds from the general revenues of the State for acquiring, constructing or equipping permanent improvements, or for major repairs or rehabilitations of permanent improvements. The Board, pursuant to constitutional and statutory provisions, is authorized to issue debt in a number of distinct forms with which to finance capital improvements.

Revenue Financing System. Chapter 55 of the Texas Education Code authorizes the Board to issue bonds to acquire or equip facilities (including auxiliary enterprise facilities) for or on behalf of University System component institutions and to pledge all or any part of its revenues, income, fees or other resources to the payment of the bonds. Historically, the Board issued bonds under this authority on an institution-by-institution basis secured exclusively by an individual fee or revenue source or combination thereof. In App-

1990, the Board restructured its debt program by establishing the Revenue Financing System pursuant to the Master Resolution. See "APPENDIX C, SUMMARY OF THE MASTER RESOLUTION." The Revenue Financing System was fully implemented in 1991. The purpose of the Revenue Financing System is to assemble University System revenue bond debt capacity into a single financing program, to provide a cost-effective debt program to the Members and to maximize the financing options available to the Board. Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances attributable to Members of the Revenue Financing System and lawfully available to secure revenue bonds and pledged the combined revenues, funds and balances as Pledged Revenue to secure payment of Parity Debt issued under the Master Resolution. The revenues, funds and balances excluded from Pledged Revenues are described within the definition of "Pledged Revenues" contained in "APPENDIX A, GLOSSARY OF TERMS."

All of the institutions currently constituting components of the University System have been included as Members of the Revenue Financing System. The Master Resolution permits the Board to make additions to or deletions from the membership of the Revenue Financing System subject to the satisfaction of certain conditions specified therein.

Under Board regulations, administration of the Revenue Financing System is the shared responsibility of the Office of Business Affairs and each Member of the Revenue Financing System. The guiding principle underlying the administration of the Revenue Financing System is that allocations of Parity Debt proceeds for capital improvements at a Member shall be contingent upon a Board determination that the Member can prudently satisfy its proportionate share of the outstanding Parity Debt attributable to such Member with such Member's financial resources. All capital improvement projects proposed to be funded in part or in whole with Parity Debt must receive a recommendation for allocation of Parity Debt from the Office of Business Affairs prior to being approved by the Board for inclusion in the capital improvements program. Such recommendations are given upon the completion of a financial evaluation concluding that such Member can prudently satisfy its Direct Obligation.

In establishing the annual budget of each Member of the Revenue Financing System, the Board includes as the Annual Obligation of the Member the amount necessary to provide for the satisfaction by the Member of its proportionate share of debt service due by the Board in such budget year on outstanding Parity Debt, plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment. Each Member's proportionate share of outstanding Parity Debt and its Annual Obligation is evidenced by a financing agreement between the Board and each Member. See "DESCRIPTION OF THE REVENUE FINANCING SYSTEM."

In 1991, pursuant to the Second Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Refunding Bonds, Series 1991A, 1991B and 1991C in the aggregate principal amount of \$282,725,000, now outstanding in the aggregate principal amount of \$225,625,000, to refund most of its then outstanding debt as a part of implementing the Revenue Financing System. In 1995 pursuant to the Third Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Bonds, Series 1995A, in the aggregate principal amount of \$74,945,000 to refund certain outstanding obligations of the Board and to provide funds to pay the cost of improvements at certain component institutions of the University System. Under the Amended and Restated First Supplemental Resolution to the Master Resolution (the "First Supplement"), the Board has authorized its Revenue Financing System Commercial Paper Notes, Series A (the "Commercial Paper Notes"), to provide interim financing for capital improvements and to finance equipment purchases for Members of the Revenue Financing System. The Commercial Paper Notes constitute Parity Debt under the Master Resolution. The First Supplement authorizes the Board to issue Commercial Paper Notes in a maximum aggregate principal amount outstanding at any one time of \$250,000,000. The Commercial Paper Notes must mature on or before April 1, 2020 and have a term of 270 days or less. There is no external bank liquidity support for the University System's obligation to pay the Commercial Paper Notes upon their maturities. The liquidity support is provided by funds of the component institutions of the University System pooled to create a short/intermediate term investment fund (previously defined as the "S/ITF"). See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Investment Policy and Procedures—Investment Programs—The Short/Intermediate Term Fund."

In an agreement between the Office of Asset Management and the Office of Business Affairs, the maximum amount of Commercial Paper Notes which may mature on any business day is limited to \$25

million. In addition, in the event that the net asset value of the S/ITF shall decline to an amount less than \$875 million and be expected by the Office of Asset Management to remain below that amount for a period of 30 days, a liquidity agreement will be acquired from a third party for an amount that will limit the S/ITF's purchase commitment to \$150 million. The First Supplement authorizes the University System's obligations under any such liquidity agreement with a third party to constitute Parity Debt.

On October 8, 1993, the Board adopted a resolution amending the Master Resolution which expanded the definition of Pledged Revenues to include the Pledged General Tuition. As a result, the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, Series 1986, and the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992, became Prior Encumbered Obligations, and the tuition charges pledged to the payment of such general tuition bonds constitute Prior Encumbered Tuition. In addition, the Board has outstanding \$22,600,000 in principal amount of The University of Texas at Austin Building Revenue Refunding Bonds, Series 1986, which are secured by and payable from sources other than Pledged Revenues; provided, that the Board has covenanted to collect a special student fee from all students (with certain exceptions) enrolled at The University of Texas at Austin if necessary to pay the debt service on such bonds. The Board has never collected the pledged fee and does not presently anticipate doing so. If the fee were ever collected, the collections would constitute Pledged Revenues; such bonds, however, would have a lien on the collections that is prior to the lien of the Master Resolution. In that event, such bonds would become Prior Encumbered Obligations.

Permanent University Fund Bonds. Article VII, Section 18 of the State Constitution authorizes the Board to issue bonds and notes, payable from all or part of its interest in the Available University Fund in an aggregate amount not exceeding, at the time of issuance, 20% of the cost value of Permanent University Fund assets, excluding real estate. Proceeds may be used for the purpose of (i) acquiring land with or without permanent improvements, (ii) constructing and equipping buildings or other permanent improvements, (iii) making major repairs and rehabilitations and other permanent improvements, (iv) acquiring capital equipment, library books and library materials, and (v) refunding bonds or notes issued under said section or prior law, at or for System Administration and the component institutions of the University System (except The University of Texas-Pan American and The University of Texas at Brownsville). Proceeds may not be used to finance permanent improvements of auxiliary enterprises.

As of November 30, 1995, the Board's constitutionally authorized Permanent University Fund bond capacity was \$887,700,198 and bonds and notes issued and outstanding under this limit were \$586,315,000.

Higher Education Assistance Fund (H.E.A.F.) Bonds. The University of Texas-Pan American and The University of Texas at Brownsville are ineligible to receive proceeds from Permanent University Fund bonds until such time as the State Constitution is amended to provide otherwise. Pursuant to the Higher Education Assistance Fund Program, The University of Texas-Pan American and The University of Texas at Brownsville are qualified to receive an annual allocation from amounts constitutionally appropriated to institutions of higher education that are not entitled to participate in Permanent University Fund bond financing in order to fund permanent improvements (except those for auxiliary enterprises). Under this constitutional provision, the Board is authorized to issue bonds and notes to finance permanent improvements at The University of Texas-Pan American and The University of Texas at Brownsville, and to pledge up to 50% of its allocation to secure the payment of principal of and interest on the bonds and notes. On December 14, 1995, the Board sold \$26,000,000 of the H.E.A.F. Bonds for The University of Texas-Pan American. The Board does not anticipate selling any additional H.E.A.F. Bonds through fiscal year 2005.

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Outstanding Indebtedness. As of January 15, 1996, the Board had the following outstanding indebtedness under all of its financing programs:

Revenue Financing System Bonds: ⁽¹⁾	
Refunding Bonds, Series 1991A ⁽²⁾	\$139,870,000
Refunding Bonds, Series 1991B ⁽²⁾	82,990,000
Refunding Bonds, Series 1991C	2,765,000
Refunding Bonds, Series 1995A	<u>74,945,000</u>
Subtotal	\$300,570,000
Revenue Financing System Commercial Paper Notes: ⁽³⁾	
Series A	<u>\$164,003,000</u>
Subtotal	\$464,573,000
Tuition Bonds: ⁽¹⁾	
General Tuition Revenue Refunding Bonds, Series 1986	\$ 11,140,000
General Tuition Revenue Refunding Bonds, New Series 1992	<u>34,080,000</u>
Subtotal	\$ 45,220,000
Building Revenue Bonds: ⁽¹⁾	
The University of Texas at Austin Building Revenue Refunding Bonds, Series 1986	<u>\$ 22,600,000</u>
Subtotal	\$ 22,600,000
Permanent University Fund Bonds:	
Refunding Bonds, Series 1988	50,000,000
Refunding Bonds, Series 1991	224,930,000
Refunding Bonds, Series 1992A	196,015,000
Refunding Bonds, Series 1992B	75,370,000
Variable Rate Notes, Series A	<u>40,000,000</u>
Subtotal	\$586,315,000
H.E.A.F. Bonds:	
The University of Texas-Pan American, Series 1995	<u>26,000,000</u>
Subtotal	\$ 26,000,000
Total	<u>\$1,144,708,000</u>

⁽¹⁾ See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System."

⁽²⁾ A Portion of the Refunding Bonds, Series 1991A and Series 1991B Bonds are being refunded by the Bonds. See "PLAN OF FINANCING—Purpose for Issuance of Bonds."

⁽³⁾ The Board is authorized to issue the Commercial Paper Notes in a maximum aggregate principal amount outstanding at any one time of \$250,000,000. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System." \$106,855,000 of the Board's outstanding Commercial Paper Notes are being refunded by the Bonds.

Insurance

Effective November 1995, the Board adopted a University System-wide Comprehensive Property Protection Plan (the "Comprehensive Property Protection Plan") to insure against catastrophic property losses. The Comprehensive Property Protection Plan provides coverage for aggregate losses exceeding \$5.0 million to a maximum of \$1.0 billion per occurrence. The Board has established a loss reserve, funded by an initial \$5.0 million allotment from the Available University Fund and other unallocated reserves held by the University System. Additionally, \$850,000 will be annually contributed to the fund on a pro-rata and risk-class basis by the institutional components of the University System. Bi-annual actuarial reviews will be conducted on the loss reserve fund to determine sufficient funding levels. Premiums for the coverage will be paid out of the loss reserve fund.

It is the stated policy of the State and the Board not to acquire commercial general liability insurance for torts committed by employees of the State who are acting within the scope of their employment. One exception to this policy authorizes the Board to acquire commercial automobile insurance for the use and benefit of its employees who operate State-owned motorized vehicles and special equipment. Also, the Board has established a Medical Liability Self-Insurance Fund to provide malpractice insurance coverage for staff physicians, students, residents and fellows at the Health Institutions.

Employees of the University System are provided worker's and unemployment compensation coverage under self-insuring, self-managed programs as authorized by State law.

Retirement Plans

Employees of the University System participate in one of two retirement plans. The first retirement plan is a multi-employer public employee retirement system administered by the Teacher Retirement System of Texas ("TRS"). The risks and costs of the TRS retirement plan are not shared by the University System but are a liability of the State. For fiscal year 1995, the University System's total payroll for employees paid from State funds and from funds other than State funds was \$2.07 billion, and \$1.05 billion of such amount related to employees covered by the TRS retirement plan. For employees paid from State funds, the State made contributions of \$51.36 million to the TRS retirement plan. For employees not paid from State funds, the University System made contributions of \$26.15 million. Employees made total contributions of \$67.05 million. According to an independent actuarial evaluation completed February, 1995 for the fiscal year 1994, the total pension benefit obligation was \$36.1 billion and the net assets available for benefit obligation of \$2.8 billion. The actuary projected that such assets, augmented by projected future contributions and earnings, would be sufficient to amortize the unfunded pension benefit obligation over a period of 18 years. Additional information may be obtained from a separately issued Teacher Retirement System of Texas Comprehensive Annual Financial Report.

The State has also established an optional retirement program for institutions of higher education. This program, now known as the Optional Retirement Program (the "Optional Retirement Program"), is a defined contribution plan authorized under section 403(b) of the Code. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. Of the University System's total payroll of \$2.07 billion for fiscal year 1995, \$836.0 million related to employees covered by the optional retirement plan. During the year contributions of approximately \$39.63 million were made by the State and contributions of \$28.4 million were made by the University System. Employees made contributions of \$55.6 million to the plan. The Optional Retirement Program provides for the purchase of annuity contracts and mutual funds. Because the Optional Retirement Program is a defined contribution plan, the State and the University System have no additional or unfunded liability for this program.

ABSENCE OF LITIGATION

Neither the Board nor the University System is a party to any litigation, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending or threatened, in any court, governmental agency, public board or body or before any arbitrator or before any governmental body which, if decided adversely to such parties, would have a material adverse effect on the Pledged Revenues or on the business, properties or assets or the condition, financial or otherwise, of the University System, and no litigation of any nature has been filed or threatened which seeks to restrain or enjoin the establishment of the Revenue Financing System, the issuance or delivery of the Bonds or the collection or application of Pledged Revenues to pay the principal of and interest on the Bonds, or in any manner questioning the validity of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Board

In the Supplemental Resolution the Board has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Board has agreed that, so long as the Board is an "obligated person" under the Rule hereinafter referred to, it will provide certain updated financial information and operating data about the University System annually, and timely notice of specified material events, to certain information vendors described below. This information is to be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports. The Board is to provide certain updated financial information and operating data to certain information vendors annually. The information to be updated by the Board includes all quantitative financial information and operating data with respect to the University System of the general type included herein under the captions "ANNUAL DEBT SERVICE REQUIREMENTS," "GENERAL DESCRIPTION OF THE UNIVERSITY OF TEXAS SYSTEM—Enrollment" and "—Faculty and Employees" and "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM" and in "APPENDIX C, FINANCIAL STATEMENTS OF THE UNIVERSITY OF TEXAS SYSTEM". The Board is to update and provide this information within six months after the end of each of its fiscal years in or after 1996.

The Board will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the time required. If audited financial statements are not available by the required time, the Board will provide such statements when and if they become available. Any such financial statements are to be prepared in accordance with generally accepted accounting principles.

The Board's current fiscal year is August 31. Annually, not later than December 31 of each year, the unaudited primary financial statements of the University System dated as of August 31, prepared from the books of the University System, must be delivered to the Governor and the State Comptroller of Public Accounts. If the Board changes its fiscal year, it is required to notify each NRMSIR and any SID of the change.

Material Event Notices. The Board will provide timely notices of certain events to certain information vendors. The Board will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Supplemental Resolution make any provision for debt service reserves, credit enhancement, or liquidity enhancement.)

In addition, the Board will provide timely notice of any failure by it to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports".

The Board will provide each notice described in the preceding paragraphs to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The Board has agreed to provide the foregoing information only to NRMSIRs and any SID. The Board has not undertaken any other continuing disclosure obligation. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and recognized by the SEC as a qualified SID. The address of the Municipal Advisory Council of Texas is 600 W. Eighth Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

The Board has agreed to update information and to provide notices of material events only as described above. It has not agreed to provide other information that may be relevant or material to a complete presentation of the University System's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Board does not make any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Board disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board to comply with its agreement.

The Board may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identify, nature, status or type of operations of the Board if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Board so amends its agreement, it will provide notice of such amendment to any SID and to either each NRMSIR or the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. The Board may also amend or repeal the provisions of this continuing disclosure requirement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with the Rule.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of each Series of Bonds are subject to approval of legality by the Attorney General of the State and of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, Bond Counsel to the Board, whose opinion will be printed on the Bonds. Attached hereto as APPENDIX D is the form of opinion that Bond Counsel will render in connection with the issuance of each Series of Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted, and such firm has not assumed any responsibility with respect thereto or undertaken to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information relating to the Revenue Financing System, the Bonds and the Resolution contained in the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCING," "SOURCES AND APPLICATIONS OF FUNDS," "DESCRIPTION OF THE BONDS," "DESCRIPTION OF THE REVENUE FINANCING SYSTEM," "LEGAL MATTERS," "CONTINUING DISCLOSURE OF INFORMATION," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," and APPENDICES A and B (except for financial and statistical data under such captions), and such firm is of the opinion that the information contained under such captions and in such appendices is a fair and accurate summary of the information purported to be shown. The payment of legal fees to Bond Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Austin and Houston, Texas, and for the University System by Wickliff & Hall P.C., Austin, Texas, and Fulbright & Jaworski L.L.P., Austin, Texas.

TAX MATTERS

Opinion

On the date of the initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX D, FORM OF BOND COUNSEL OPINION."

In rendering their opinion, Bond Counsel will rely upon (a) the Board's no-arbitrage certificate and the verification report prepared by KPMG Peat Marwick LLP, and (b) covenants of the Board with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Board to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The law upon which Bond Counsel have based their opinion is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Federal Income Tax Accounting Treatment of the Original Issue Discount

The underwriters have represented that the initial public offering price to be paid for certain of the Bonds, as stated on the cover of the Official Statement (the "Original Issue Discount Bonds"), is less than the principal amount thereof. The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased any Original Issue Discount Bond in the initial public offering of the Bonds. Under existing law, such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see "Collateral Federal Income Tax Consequences" below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bond will be included as an adjustment for "adjusted earnings and profits" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent of taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds is includable in the "alternative minimum taxable income" of a corporation (other than a regulated investment company or a real estate investment trust) for purposes of determining the environmental tax imposed by section 59A of the Code. Section 59A of the Code imposes on a corporation an environmental tax, in addition to any other income tax imposed by the Code, equal to 0.12 percent of the excess of the modified alternative minimum taxable income of such corporation for the taxable year over \$2,000,000.

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporations doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issue at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

LEGAL INVESTMENTS IN TEXAS

Pursuant to Article 717k-6, Vernon's Annotated Texas Civil Statutes, as amended, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries and trustees, and for the sinking funds of cities, towns, villages, school districts and other political subdivisions or public agencies of the State. The Bonds are eligible to secure deposits of public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the

extent of their market value. The Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "Investment Act") provides that any "local government" and "state agency" (as those terms are defined in the Investment Act) may invest in the Bonds, provided the Bonds have received a rating of not less than "A" from a nationally recognized investment rating firm. No investigation has been made of other laws, regulations or investment criteria which might limit the ability of such institutions or entities to invest in the Bonds, or which might limit the suitability of the Bonds to secure the funds of such entities. No review by the Board has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Bonds will be subject to delivery by KPMG Peat Marwick LLP, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to (a) the adequacy of the maturing principal amounts of the Federal Securities held in each Escrow Fund, together with a portion of the interest income thereon and uninvested cash, if any, in such Escrow Fund to pay, when due, the principal of and redemption premium, if any, and interest on the related Refunded Obligations and (b) the actuarial yields relied on by Bond Counsel to support its opinion that the Bonds are not arbitrage bonds under section 148 of the Code. Such computations were based solely on assumptions and information supplied by the Underwriters on behalf of the Board. KPMG Peat Marwick LLP has restricted its procedures to examining the mathematical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based, and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RATINGS

Fitch Investors Service, Moody's and S&P have assigned ratings of AA+, Aa1 and AA+, respectively, to the Bonds. An explanation of the significance of each such rating may be obtained from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the Board at an underwriting discount of \$ _____ with respect to the Series 1996A Bonds and \$ _____ with respect to the Series 1996B Bonds. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

OTHER MATTERS

The financial data and other information contained herein have been obtained from the Board's records, unaudited primary financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes and documents contained in this Official Statement are made subject to all of the provisions of such statutes and documents. The summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

/s/ John A. Roan
Assistant Vice Chancellor for Finance
The University of Texas System

The University of Texas System
201 West 7th Street
Austin, Texas 78701

APPENDIX A

GLOSSARY OF TERMS

GLOSSARY OF TERMS

As used in this Official Statement, the following terms and expressions have the meanings set forth below:

Annual Direct Obligation means the amount budgeted each fiscal year by the Board with respect to each Member of the Revenue Financing System to satisfy the Member's proportion of debt service (calculated based on the Member's Direct Obligation) due by the Board in such fiscal year on outstanding Parity Debt.

Annual Obligation means, with respect to each Member of the Revenue Financing System and for each fiscal year, the Member's Annual Direct Obligation plus the amount budgeted by the Board for such fiscal year to allow the Member to retire its obligation for any intra-system advances made to it to satisfy part or all of a previous Annual Direct Obligation payment.

Board Representative means one or more of the following officers or employees of the University System, to-wit: the Chancellor, any Executive Vice Chancellor, the Vice Chancellor and General Counsel, the Assistant Vice Chancellor for Finance, the Assistant Vice Chancellor and Controller, the Director of Finance, or such other officer or employee of the University System authorized by the Board to act as a University Representative.

Credit Agreement means, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Parity Debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the Board as a Credit Agreement in connection with the authorization, issuance, security, or payment of Parity Debt and on a parity therewith.

Direct Obligation means the proportionate share of outstanding Parity Debt attributable to and the responsibility of each respective Financing System Member of the Revenue Financing System.

Health Institutions means The University of Texas Southwestern Medical Center at Dallas, The University of Texas Medical Branch at Galveston, The University of Texas Health Science Center at Houston, The University of Texas Health Science Center at San Antonio, The University of Texas M.D. Anderson Cancer Center, The University of Texas Health Center at Tyler, and any other health institutions which become part of the University System and are hereafter made a Member of the Revenue Financing System.

Master Resolution means the Amended and Restated Master Resolution of the Board adopted on February 14, 1991 establishing the Revenue Financing System, as amended by the Board on October 8, 1993.

Member means each of the institutions currently constituting components of the University System and such institutions hereafter designated by the Board to be Members of the Revenue Financing System.

Parity Debt means all indebtedness of the Board which may be issued or assumed in accordance with the terms of the Master Resolution and a supplement thereto, secured by a pledge of the Pledged Revenues subject only to the liens securing Prior Encumbered Obligations.

Paying Agent/Registrar shall mean the entity designated in accordance with the Supplemental Resolution as the Paying Agent/Registrar for the Bonds, initially Texas Commerce Bank National Association.

Pledged General Fee means the gross collections of a student use fee to be fixed, charged and collected pursuant to Section 55.16, Texas Education Code, from the students (excepting, with respect to each series or issue of Parity Debt, any student in a category which, at the time of the adoption of the supplemental resolution providing for such issue or series of Parity Debt, is exempt by law from paying fees) regularly enrolled at the institutions and branches thereof now or hereafter constituting a Member of the Revenue Financing System, respectively, for the general use and availability of such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in the Master Resolution. Under legislation recently passed by the State Legislature but not signed into law by the

Governor as of the date hereof, the maximum student use fee has been increased to an amount per semester credit hour not to exceed the tuition rate per semester credit hour for a resident student at a general academic teaching institution unless, pursuant to Section 55.16, Texas Education Code, a higher fee is required to pay the principal of and interest on then outstanding Parity Debt or other outstanding revenue supported indebtedness of the Board secured by and payable from such fee.

Pledged General Tuition means all of the aggregate amount of student tuition charges now or hereafter required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school, now or hereafter operated by or under the jurisdiction of the Board, but specifically excluding and excepting (1) the amount of tuition scholarships now provided for by law, and (2) the Pledged Tuition Fees; and it is provided by law and hereby represented and covenanted that the aggregate amount of student tuition charges which are now required or authorized by law to be imposed, and which are pledged to the payment of the Parity Debt shall never be reduced or abrogated while such obligations are outstanding; it being further covenanted that the aggregate amount of student tuition charges now required or authorized by law to be imposed on students enrolled at each and every institution, branch, and school operated by or under the jurisdiction of the Board are set forth in the Texas Education Code, as amended, to which Code reference is hereby made for all purposes.

Pledged Practice Plan Funds means that portion of the Practice Plan Funds of a Health Institution now or hereafter constituting a Member of the Revenue Financing System which has been pledged to the payment of Parity Debt by the Board by the adoption of an amendment to the Master Resolution; provided, however, that any such pledge may be limited in amount and in any manner, extent or duration as provided in such amendment. The Board pledged \$4,500,000 from the Practice Plan Funds from The University of Texas Southwestern Medical Center at Dallas commencing in the fiscal year in which Parity Debt was first issued for the project and ending when such Health Institution's Direct Obligation relating to the project for which such pledge was made has been fully paid and satisfied. Except as provided above, Pledged Revenues do not currently include any other Practice Plan Funds.

Pledged Revenues means, subject to the provisions of the Prior Encumbered Obligations, collectively (i) the Pledged Tuition Fee, (ii) the Pledged General Fee, (iii) the Pledged Practice Plan Funds, (iv) the Pledged General Tuition, and (v) any or all of the revenues, funds, and balances now or hereafter lawfully available to the Board and derived from or attributable to any Member of the Revenue Financing System which are lawfully available to the Board for payments on Parity Debt; provided, however, that the following shall not be included in Pledged Revenues unless and to the extent set forth in a supplement to the Master Resolution: (a) the interest of the University System in the Available University Fund under Article VII, Section 18 of the State Constitution, including the income therefrom and any fund balances relating thereto (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Fund Balances—Available University Fund"); (b) amounts received on behalf of any Member under Article VII, Section 17 of the State Constitution, including the income therefrom and any fund balances related thereto (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financings—Financing Programs—Higher Education Assistance Fund (H.E.A.F.) Bonds"); (c) except to the extent so appropriated, general revenue funds appropriated to the Board by the State Legislature (see "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Current Funds—Unrestricted Current Funds Revenues—State Appropriations"); and (d) Practice Plan Funds of any Member, including the income therefrom and any fund balances relating thereto not included in Pledged Practice Plan Funds.

Pledged Tuition Fee means, as authorized by Section 55.17, Texas Education Code, the following specified amounts (or such increased amounts as hereafter authorized by law) out of the tuition charges now or hereafter required or permitted by law to be imposed on each tuition paying student enrolled at each and every institution or branch thereof now or hereafter constituting a Member of the Revenue Financing System (excepting the Health Institutions until and unless the Board authorizes the pledge of such tuition charges at any such institution to the payment of Parity Debt) and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered Tuition Fees, respectively:

\$5.00 from each enrolled student for each regular semester and \$2.50 from each enrolled student for each summer term of each summer session.

Practice Plan means any agreement entered into by and between a Health Institution Member and faculty appointees of that Member that: (a) assigns to the Member patient fees collected for professional

services rendered by the appointee and (b) regulates the collection and expenditure of such patient fees. Practice Plan also includes such agreements existing between an institution which becomes a Member after the date of the adoption of the Resolution and such institution's faculty.

Practice Plan Funds means the Practice Plan income and fund balances of a Health Institution Member.

Principal Office for Payment means the principal office of the Paying Agent/Registrar for payment of bonds, initially the office of the Paying Agent/Registrar in Dallas, Texas.

Prior Encumbered General Fee means the Pledged General Fee securing Prior Encumbered Obligations and that portion of the student use fee charged and collected at an institution which becomes a Member of the Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Prior Encumbered General Tuition means the Pledged General Tuition securing Prior Encumbered Obligations and the tuition charges in the maximum amount permitted in the definition of Pledged General Tuition charged and collected at an institution which becomes a Member of the Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Prior Encumbered Obligations means the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, Series 1986, the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992, and those bonds or other obligations of an institution outstanding on the date it becomes a Member of the Financing System and which are secured by alien on and pledge of the Prior Encumbered General Fee, the Prior Encumbered Revenues, the Prior Encumbered Tuition Fee, the Prior Encumbered General Tuition, and/or the Prior Encumbered Practice Plan Funds charged and collected at such institution and all existing obligations of the Board secured by a lien on a portion of the Pledged Revenues which is superior to the lien established by the Master Resolution on behalf of Parity Debt.

Prior Encumbered Practice Plan Funds means the Pledged Practice Plan Funds which are pledged to the payment of bonds or other obligations of an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Resolution.

Prior Encumbered Revenues means the revenues pledged to the payment of Prior Encumbered Obligations and the revenues of any revenue producing system or facility of an institution which hereafter becomes a Member of the Revenue Financing System and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Revenue Financing System.

Prior Encumbered Tuition Fee means the Pledged Tuition Fee securing Prior Encumbered Obligations and that portion of the tuition charges in the maximum amount permitted in the definition of Pledged Tuition Fee charged and collected at an institution which becomes a Member of the Revenue Financing System after the date of adoption of the Master Resolution and which are pledged to the payment of bonds or other obligations outstanding on the date such institution becomes a Member of the Financing System.

Resolution means, collectively, the Master Resolution and the Supplemental Resolution.

State means the State of Texas.

Supplemental Resolution means the Fourth Supplemental Resolution to the Master Resolution adopted by the Board on January 5, 1996, providing for the issuance of the Bonds.

APPENDIX B

SUMMARY OF THE MASTER RESOLUTION

SUMMARY OF THE MASTER RESOLUTION

Establishment of the Revenue Financing System

The Board has established the Revenue Financing System for the purpose of providing a system-wide financing structure for revenue-supported indebtedness of component institutions of the University System included as Members of the Revenue Financing System. The Master Resolution establishes a master plan under which revenue-supported indebtedness of the Revenue Financing System can be incurred. Each issue or series of Parity Debt is to be provided for under a supplemental resolution consistent with the provisions of the Master Resolution.

Security and Pledge: Membership in the Revenue Financing System

Subject to the provisions of resolutions authorizing Prior Encumbered Obligations, Parity Debt issued under the Master Resolution is payable from and secured by a lien on all Pledged Revenues. The Board has assigned and pledged the Pledged Revenues to the payment of the principal of and interest on Parity Debt and to the establishment and maintenance of any funds that may be created under the Master Resolution or a supplemental resolution to secure the repayment of Parity Debt. The Board may additionally secure Parity Debt with one or more Credit Agreements.

All of the institutions currently constituting components of the University System have been included under the Master Resolution as Members of the Revenue Financing System. If an additional institution hereafter becomes a component of the University System, the Board may include the new component as a Member of the Revenue Financing System. In that event, the lien on and pledge of Pledged Revenues established pursuant to the Master Resolution and effective when such institution becomes a Member of the Revenue Financing System will apply to the revenues, funds and balances of such Member that constitute Pledged Revenues; provided, that, if at the time a new Member is admitted, it has outstanding debt obligations secured by any of such sources, such obligations will constitute Prior Encumbered Obligations of the Board secured by a lien on the portion of the Pledged Revenues providing such security which is superior to the lien established by the Master Resolution on behalf of Parity Debt. The Board has reserved the right to refund Prior Encumbered Obligations with the proceeds of refunding bonds issued as Prior Encumbered Obligations secured by the same sources as the sources securing the refunded Prior Encumbered Obligations. Otherwise, while any Parity Debt is outstanding, the Board has agreed not to issue additional obligations on a parity with any Prior Encumbered Obligations.

Rate Covenant

The Board has covenanted in the Master Resolution that in each fiscal year it will establish, charge and use its reasonable efforts to collect at each Member the Pledged Tuition Fee, the Pledged General Fee, the Pledged Practice Plan Funds (but only to the extent the Practice Plan Funds are pledged to secure Parity Debt) and other rates, fees, and charges for goods and services furnished by, and for the use of, properties of the Revenue Financing System, which, if collected, would be sufficient to meet all financial obligations of the Board relating to the Revenue Financing System including all deposits or payments due on or with respect to outstanding Parity Debt for such fiscal year.

Annual and Direct Obligation of Members

The Master Resolution provides that each Member of the Revenue Financing System is responsible for its Direct Obligation. The Board covenants in the Master Resolution that in establishing the annual budget for each Member of the Revenue Financing System, it will provide for the satisfaction by each Member of its Annual Obligation. Each Member's Direct Obligation and Annual Obligation shall be evidenced by a financing agreement between the Board and each Member.

Pledged General Fee

The Board has covenanted and agreed at all times to maintain and collect the Pledged General Fee in such amounts, without limitation (other than as provided in the next to the last sentence of the following paragraph), as will be at least sufficient at all times, together with other legally available funds, including other Pledged Revenues, to provide the money to make or pay the principal of, interest on, and other payments or deposits with respect to outstanding Parity Debt when and as required. The Board has agreed that the Pledged General Fee will be adjusted to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with outstanding

Parity Debt. The Board may fix and collect the Pledged General Fee in any manner it may determine within its discretion and in different amounts from students enrolled in different Members. In addition, if and for any period during which total Pledged Revenues, together with other legally available funds, are sufficient to meet all of the Board's financial obligations of the Revenue Financing System, the Board may suspend the collection of the Pledged General Fee from the students enrolled in any Member.

The Board has covenanted that if it determines that Pledged Revenues and other legally available funds are not anticipated to be sufficient to meet all of its financial obligations relating to the Revenue Financing System, including all deposits and payments coming due on outstanding Parity Debt, or that any Member will be unable to pay its Annual Direct Obligation in full, the Pledged General Fees will be adjusted, effective at the next regular semester or semesters or Summer term or terms, to an amount, without any limitation (other than as provided in the next to the last sentence of this paragraph), at least sufficient to provide, together with other Pledged Revenues and legally available funds, the money for paying when due all financial obligations of the Board relating to the Revenue Financing System, including all payments and deposits with respect to outstanding Parity Debt. Any adjustment in the rate of the Pledged General Fee of any of the Members will be based upon the certificate and recommendation of a University Representative delivered to the Board, as to the rates and anticipated collection of the Pledged General Fee at the various Members (after taking into account the anticipated effect the proposed adjustment would have on enrollment and the receipt of Pledged Revenues and other funds of such Member) which will be anticipated to result in (i) Pledged Revenues attributable to each Member being sufficient (to the extent possible) to satisfy the Annual Obligation of such Member and (ii) Pledged Revenues being sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System, including all deposits and payments due on or in connection with outstanding Parity Debt when and as required. Notwithstanding the foregoing, it is recognized that certain Members do not and will not enroll students, and, therefore, the Board will not levy or collect the Pledged General Fee at such Members.

Under the Master Resolution, the Board has excepted from the Pledged General Fee, with respect to any particular series or issue of Parity Debt, collections from any student permitted by the Texas Education Code to be exempted (currently, any student for whom payment would cause an undue economic hardship, as long as the total number of students exempted does not exceed 5% of the total enrollment at any Member) as of the date on which the issue of Parity Debt is authorized.

General Covenants

In the Master Resolution, the Board has covenanted that it will (a) make available to the Paying Agent or other paying agent, on or before each payment date, money sufficient to pay the principal of and the premium, if any, and interest on all Parity Debt as it becomes due and payable and the fees and expenses related to the Parity Debt, including the fees and expenses of the paying agent and any registrar, trustee, remarketing agent, tender agent or credit provider; (b) faithfully perform all covenants and undertakings under the Master Resolution and each supplemental resolution; (c) cause all Parity Debt to be called for redemption and redeemed prior to maturity, to the extent required under the provisions of the Master Resolution or any supplemental resolution; (d) maintain all real and tangible property of the Revenue Financing System in good condition, repair and working order and not impair or permit any impairment of the Revenue Financing System; (e) not incur additional debt secured by the Pledged Revenues, except as Parity Debt permitted under the Master Resolution or as debt that is junior and subordinate in all respects to the liens, pledges and covenants of the Master Resolution and any supplemental resolution; (f) invest and secure money in all funds and accounts established under the Master Resolution and any supplemental resolution as prescribed by law and the policies of the Board; (g) keep proper books of record and account relating to all dealings, activities and transactions of the Board; (h) permit any owner or owners of at least 25% of the principal amount of the then outstanding and unpaid principal amount of Parity Debt to inspect the records and accounts of the Board relating to the University System; and (i) provide for the satisfaction by each Member of its Annual Obligation. In addition, the Board has warranted that it lawfully owns and has title to or lawfully possesses the lands, buildings and facilities constituting the University System, that it will defend the title to all properties that become a part of the Revenue Financing System and that it is lawfully qualified to pledge the Pledged Revenues in the manner prescribed in the Master Resolution and has exercised such right.

Additional Parity Debt: Non-Recourse Debt and Subordinated Debt

In the Master Resolution, the Board reserves the right to issue or incur additional Parity Debt for any purpose authorized by law. The Board may incur, assume, guarantee or otherwise become liable in respect of additional Parity Debt if the Board determines that it will have sufficient funds to meet the financial obligations of the University System, including sufficient Pledged Revenue to satisfy the annual debt service requirements of the

Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System.

In addition, the Board covenants not to issue or incur Parity Debt unless (i) it determines that the Member or Members for whom Parity Debt is being issued or incurred possess the financial capacity to satisfy their respective Direct Obligations after taking into account the then proposed additional Parity Debt, and (ii) a University Representative delivers to the Board a certificate stating that, to the best of his or her knowledge, the Board is in compliance with all covenants contained in the Master Resolution and any supplemental resolution authorizing outstanding Parity Debt, and is not in default in the performance and observance of any of the terms, provisions and conditions thereof.

The Board has reserved the right to issue without limit debt secured by a lien other than a lien on Pledged Revenues and debt which expressly provides that all payments thereon shall be subordinated to the timely payment of all Parity Debt.

Waiver of Covenants

The Board may omit in any particular instance to comply with any covenant or condition set forth above as a general covenant or with its rate covenant (see "Rate Covenant" in this APPENDIX B), its covenants relating to issuance of Parity Debt (see "Additional Parity Debt" in this APPENDIX B), its covenants governing disposition of Member assets (see "Disposition of Member Assets" in this APPENDIX B) or its covenants relating to admission and release of Members (see "Changes in Membership of the Revenue Financing System" in this APPENDIX B) if the holders of at least 51% of all Parity Debt outstanding shall waive such compliance.

Disposition of Member Assets

In the Master Resolution, the Board has reserved the rights to convey, sell or otherwise dispose of any properties of the Board attributable to a Member of the Revenue Financing System, provided that:

- (i) such disposition shall occur in the ordinary course of business of the Member of the Revenue Financing System responsible for such properties; or
- (ii) the Board determines that after the disposition, the Board shall have sufficient funds during each fiscal year to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all other financial obligations of the Board relating to the Revenue Financing System.

Changes in Membership of the Revenue Financing System

The Master Resolution recognizes that the State may combine or divide Member institutions and provides that so long as the combined or divided institutions continue to be governed by the Board such action shall not violate the Master Resolution or require any amendment thereof. The Master Resolution also provides that a Member institution or portion thereof may be closed and abandoned by law or otherwise removed from the Revenue Financing System (thus deleting the revenues, income, funds and balances attributable to such Member or portion thereof from Pledged Revenues) without violating the Master Resolution upon satisfaction of the following requirements:

- (i) the Board specifically finds (based upon a certificate signed by a University Representative) that after the release of the Member or portion thereof, the Board will have sufficient funds during each fiscal year in which Parity Debt shall thereafter be outstanding to meet the financial obligations of the University System, including sufficient Pledged Revenues to satisfy the annual debt service requirements of the Revenue Financing System and to meet all financial obligations of the Board relating to the Revenue Financing System; and
- (ii) the Board shall have received an opinion of legal counsel acceptable to the Board stating that such release will not affect the status for federal income tax purposes of interest on any outstanding Parity Debt and that all conditions precedent provided in the Master Resolution or any supplement thereto relating to such release have been complied with; and

(iii) (a) if the Member or portion thereof to be released is to remain under the governance and control of the Board, the Board must either (1) provide from lawfully available funds, including Pledged Revenues attributable to the withdrawing Member, for the payment or discharge of that Member's Direct Obligation; or (2) pledge to the payment of Parity Debt, additional resources not then pledged in an amount sufficient to satisfy the withdrawing Member's Direct Obligation; or

(b) if the Member or portion thereof to be released is no longer to be under the governance and control of the Board, the Board must receive a binding obligation of the new governing body of the withdrawing institution or portion thereof, obligating the new governing body to make payments to the Board at the times and in the amounts equal to the withdrawing Member's Annual Obligation or to pay or discharge that Member's Direct Obligation, or, in the case of a portion of a Member being withdrawn, the portion of the Member's Annual Obligation or Direct Obligation, as the case may be, attributable to the withdrawing portion of the Member.

Special Obligations: Absolute Obligation to Pay Parity Debt

The Master Resolution provides that all Parity Debt and the interest thereon shall constitute special obligations of the Board payable from the Pledged Revenues, and the owners thereof shall never have the right to demand payment out of funds raised or to be raised by taxation, or from any source other than specified in the Master Resolution or any supplemental resolution. The obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and each supplemental resolution out of the Pledged Revenues shall be absolute, irrevocable, complete, and unconditional, and the amount, manner and time of payment of such amounts shall not be decreased, abated, rebated, setoff, reduced, abrogated, waived, diminished, or otherwise modified in any manner or to any extent whatsoever.

Remedies

Any owner of Parity Debt in the event of default in connection with any covenant contained in the Master Resolution or in any supplemental resolution, or default in the payment of Parity Debt, or of any interest due thereon, or other costs and expenses related thereto, may require the Board, its officials and employees, and any appropriate official of the State, to carry out, respect, or enforce the covenants and obligations of the Master Resolution or any supplemental resolution, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings in any court of competent jurisdiction against the Board, its officials and employees, or any appropriate official of the State.

Defeasance of Parity Debt

Any Parity Debt and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a "Defeased Debt") within the meaning of the Master Resolution, except that the Board must provide for the services of the Paying Agent or other paying agent, when the payment of all principal and interest payable with respect to such Parity Debt to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or provision for the giving of same having been made) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the paying agent for such Parity Debt for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) noncallable Government Obligations (as defined below) which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with each such paying agent for the payment of its services until after all Defeased Debt shall have become due and payable. At such time as Parity Debt shall be deemed to be Defeased Debt, such Parity Debt and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the Pledged Revenues, and such principal and interest shall be payable solely from such money or Government Obligations, and shall not be regarded as outstanding for any purposes other than payment, transfer, and exchange. Any money deposited with or made available to a paying agent as described in this paragraph may, at the written direction of the Board, also be invested in Government Obligations maturing in the amounts and times as described above, and all income from such Government Obligations received by the paying agent for an issue of Parity Debt which is not required for the payment of the Parity Debt and interest thereon, with respect to which such money has been so deposited, is to be turned over to the Board, or deposited as directed in writing by the Board. As used in this paragraph, the term

"Government Obligations" means direct obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, which may be United States Treasury obligations such as its State and Local Government Series, which may be in book-entry form.

Amendments of Master Resolution

Amendments Without Consent. The Master Resolution and the rights and obligations of the Board and of the owners of the outstanding Parity Debt may be modified or amended at any time without notice to or the consent of any owner of the outstanding Parity Debt, solely for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Board contained in the Master Resolution, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the Board in the Master Resolution;
- (ii) to cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Master Resolution, upon receipt by the Board of an approving opinion of bond counsel, that the same is needed for such purpose and will more clearly express the intent of the Master Resolution;
- (iii) to supplement the security for the outstanding Parity Debt, including, but not limited to, amending the definition of Pledged Revenues to add a portion or all of the Practice Plan Funds attributable to any Member (one or more) to Pledged Revenues; provided, however, any amendment to the definition of Pledged Revenues which results in the pledge of Practice Plan Funds may limit the amount of such pledge and the manner, extent and duration of such additional pledge all as set forth in such amendment; or
- (iv) to make such other changes in the provisions of the Master Resolution as the Board may deem necessary or desirable and which shall not, in the judgment of the Board, materially adversely affect the interests of the owners of outstanding Parity Debt; or
- (v) to make any changes or amendments requested by any bond rating agency then rating or requested to rate Parity Debt, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the Board, materially adversely affect the interests of the owners of the outstanding Parity Debt.

Amendments With Consent. Subject to the other provisions of the Master Resolution, the owners of outstanding Parity Debt aggregating 51% in Outstanding Principal Amount shall have the right from time to time to approve any other amendment to the Master Resolution which may be deemed necessary or desirable by the Board, provided, however, that nothing contained in the Master Resolution shall permit or be construed to permit, without the approval of the owners of all of the outstanding Parity Debt, the amendment of the terms and conditions in the Master Resolution so as to:

- (i) grant to the owners of any outstanding Parity Debt a priority over the owners of any other outstanding Parity Debt; or
- (ii) materially adversely affect the rights of the owners of less than all Parity Debt then outstanding; or
- (iii) change the minimum percentage of owners of the Outstanding Principal Amount of Parity Debt necessary for consent to such amendment.

For purposes of determining whether the requisite owners of outstanding Parity Debt have approved a proposed amendment, "Outstanding Principal Amount" means, with respect to all Parity Debt or to a series of Parity Debt, the outstanding and unpaid principal amount of such Parity Debt paying interest on a current basis and the outstanding and unpaid principal and compounded interest on such Parity Debt paying accrued, accreted or compounded interest only at maturity as of any record date established by the Registrar in connection with a proposed amendment or supplement to the Master Resolution.

Notice. If at any time the Board should desire to amend the Master Resolution with the consent of the owners of Parity Debt, the Board is required to cause notice of the proposed amendment to be published in a financial

newspaper or journal of general circulation in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice is required to briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of each registrar for the Parity Debt for inspection by all owners of Parity Debt. Such publication is not required, however, if the Board gives or causes to be given such notice in writing, by certified mail, to each owner of Parity Debt.

Amendments of Supplemental Resolutions. Each supplemental resolution may contain provisions governing the ability of the Board to amend such supplemental resolution; provided, however, that no amendment may be made to any supplemental resolution for the purpose of granting to the owners of outstanding Parity Debt under such supplemental resolution a priority over the owners of any other outstanding Parity Debt.

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APPENDIX C

**FINANCIAL STATEMENTS OF
THE UNIVERSITY OF TEXAS SYSTEM**

APPENDIX D

FORM OF BOND COUNSEL OPINION

\$ _____
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS
SYSTEM REVENUE FINANCING SYSTEM BONDS
\$ _____ SERIES 1996A
\$ _____ SERIES 1996B

PURCHASE AGREEMENT

_____, 1996

The Board of Regents of
The University of Texas System
c/o Assistant Vice Chancellor for Finance
201 West 7th Street
Austin, Texas 78701

Ladies and Gentlemen:

The undersigned (hereinafter sometimes called the "Representative"), acting on behalf of itself and on behalf of the other underwriters named in the list attached hereto as Schedule 1 (the Representative and such other underwriters being herein collectively called the "Underwriters"), offers to enter into the following agreement with the Board of Regents of The University of Texas System (hereinafter called the "Board"), which, upon the Board's written acceptance of this offer, as evidenced by the execution of this Purchase Agreement by the Assistant Vice Chancellor for Finance of The University of Texas System, as the duly authorized agent of the Board (the "Board Representative"), will be binding upon the Board and upon the Underwriters. Capitalized terms used herein and not otherwise defined shall have the respective meanings given to them in the Official Statement (as hereinafter defined).

1. **Purchase and Sale of the Bonds.** (a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriters hereby agree to purchase from the Board, and the Board hereby agrees to sell and deliver to the Underwriters (i) all (but not less than all) of the \$ _____ aggregate principal amount of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996A (the "Series 1996A Bonds") and (ii) all (but not less than all) of the \$ _____ aggregate principal amount of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996B (the "Series 1996B Bonds" and together with the Series 1996A Bonds, the "Bonds")

(b) The Bonds shall be authorized by, and shall be issued and secured under the provisions of, an amended and restated master resolution, adopted by the Board on February 14, 1991, as amended on October 8, 1993 (the "Master Resolution"), establishing The University of Texas System Revenue Financing System, and a fourth supplemental resolution, adopted by the Board on January 5, 1996 (the "Supplemental Resolution" and together with the Master Resolution, the "Resolution"), providing for the issuance of the Bonds. The Bonds shall be dated, shall be in the aggregate principal amount, shall have the maturities, shall bear interest from the dates and at the rates, shall be subject to redemption, and shall have the other characteristics and terms as set forth in Exhibit A.

(c) The purchase price for the Series 1996A Bonds shall be \$ _____ (representing the par amount of the Series 1996A Bonds of \$ _____, [plus/less] a net original issue [premium/discount] on the Bonds of \$ _____ and less an underwriting discount of \$ _____), plus interest accrued on the Series 1996A Bonds from the date of the Series 1996A Bonds to the Closing Date (as hereinafter defined).

The purchase price for the Series 1996B Bonds shall be \$ _____ (representing the par amount of the Series 1996B Bonds of \$ _____, [plus/less] a net original issue [premium/discount] on the Series 1996B Bonds of \$ _____ and less an underwriting discount of \$ _____), plus interest accrued on the Series 1996B Bonds from the date of the Series 1996B Bonds to the Closing Date (as hereinafter defined).

(d) It shall be a condition to the Board's obligations to sell and deliver the Bonds to the Underwriters and to the Underwriters' obligations to purchase, to accept delivery of and to pay for the Bonds that the entire principal amount of the Bonds shall be issued, sold and delivered by the Board and purchased, accepted and paid for by the Underwriters at the Closing (as hereinafter defined). The Underwriters agree to make a bona fide public offering of all of the Bonds at prices not in excess of the initial offering prices or yields set forth on the cover of the Official Statement, plus interest accrued thereon from the date of the Bonds.

(e) In the event that the Underwriters fail (other than for a reason permitted hereunder) to accept delivery of and to pay for the Bonds at the Closing as herein provided, the Underwriters shall pay to the Board an amount equal to one percent of the aggregate principal amount of the Bonds as and for full liquidated damages for such failure and for any defaults hereunder on the part of the Underwriters and, except as set forth in Paragraphs 8 and 10 hereof, neither party hereto shall have any further rights against the other hereunder.

2. The Official Statement; End of the Underwriting Period. (a) The Preliminary Official Statement of the Board, dated _____, 1996, including the cover page and Appendices thereto, relating to the Bonds (the "Preliminary Official Statement"), as amended to conform to the terms of this Purchase Agreement and with such changes and amendments to the date hereof as have been mutually agreed to by the Board and the Representative, as indicated on Exhibit B attached hereto, is hereinafter called the "Official Statement."

(b) Prior to or concurrently with the acceptance hereof by the Board, the Board has delivered to the Representative:

(i) One certified copy of the Resolution.

(ii) Two copies of the Official Statement manually signed on behalf of the Board by the Board Representative.

(c) The Board hereby represents and warrants that the Preliminary Official Statement previously delivered to the Representative was deemed final by the Board as of its date, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by Rule 15c2-12 under the Securities Exchange Act of 1934 ("Rule 15c2-12").

(d) The Board, acting through the Board Representative, has duly authorized and approved and executed the Official Statement, which is final solely for purposes of Rule 15c2-12.

(e) Unless otherwise notified in writing by the Representative by the Closing Date, the Board can assume that the "end of the underwriting period" for purposes of Rule 15c2-12 shall be the Closing Date. In the event such notice is so given in writing by the Representative, the Representative agrees to notify the Board in writing following the occurrence of the "end of the underwriting period" as defined in Rule 15c2-12. The "end of the underwriting period" as used in this Purchase Agreement shall mean the Closing Date or such later date as to which notice is given by the Representative in accordance with the preceding sentence.

3. Use of Documents; Certain Covenants and Agreements of the Board. (a) The Board hereby authorizes the use by the Underwriters of the Resolution, the Escrow Agreement and the Official Statement, including any supplements or amendments thereto, and the information therein contained in connection with the public offering and sale of the Bonds. The Board ratifies and confirms the use by the Underwriters prior to the date hereof of the Preliminary Official Statement in connection with the public offering of the Bonds.

(b) The Board covenants and agrees:

(i) To cause reasonable quantities of the Official Statement, as requested by the Underwriters, to be delivered to the Underwriters, without charge, within seven business days of the date hereof.

(ii) To apply the proceeds from the sale of the Bonds as provided in and subject to all of the terms and provisions of the Resolution authorizing their issuance, and not to take or omit to take any action which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds under the Internal Revenue Code of 1986, as amended (the "Code").

(iii) If, after the date of this Purchase Agreement to and including the date the Underwriters are no longer required pursuant to Rule 15c2-12 to provide the Official Statement to potential customers requesting an Official Statement (such date being the earlier of (A) 90 days from the end of the underwriting period and (B) the time when the Official Statement is available to any person from a nationally recognized municipal securities repository, but in no case less than 25 days after the end of the underwriting period), any event shall occur as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein, in the light of the circumstances when the Official Statement is delivered to a purchaser, not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, to notify the Representative (and for the purposes of this clause (iii) to provide the Underwriters with such information as they may from time to time request), and to cooperate with the Underwriters in the preparation of either amendments or supplements to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not, in light of the circumstances when the Official Statement is delivered to a purchaser, be misleading or so that the Official Statement will comply with law.

(iv) To furnish such information and execute such instruments and take such action in cooperation with the Representative as the Representative may reasonably request (A) to (y) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States as the Representative may designate and (z) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions and (B) to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the Board will not be required to qualify as a foreign corporation or otherwise to do business or to file any general or special consents to service of process under the laws of any state.

(v) To advise the Representative immediately of receipt by the Board of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose.

(vi) To not issue any additional bonds, notes or other obligations for borrowed money payable in whole or in part from Pledged Revenues (other than Commercial Paper Notes) between the date hereof and the Closing Date without the prior written consent of the Underwriters; and neither the Board nor The University of Texas System (the "System") will incur any material liabilities, direct or contingent, (except as otherwise contemplated by the Official Statement) between the date hereof and the Closing Date without the prior written consent of the Underwriters.

4. **Representations and Warranties of the Board.** The Board hereby represents and warrants to each of the Underwriters, as of the date hereof and as of the Closing Date, that:

(a) The System is and will be as of the Closing Date a duly organized and existing agency of the State of Texas, and the Board is the duly appointed governing body of the System. The Board and the System have the powers and authority, among others, set forth in the Texas Education Code.

(b) The Board has, and at the time of the Closing will have, full legal right, power and authority (i) to enter into this Purchase Agreement and the Escrow Agreement, and (ii) to adopt the Resolution, to pledge the Pledged Revenues in the manner provided in the Resolution, and to issue, sell and deliver the Bonds as Parity Debt to the Underwriters as provided herein and in the Resolution and the Official Statement; and the Board has, and at the time of the Closing will have, duly adopted the Resolution and duly authorized and approved the execution and delivery of, and the performance of its obligations contained in, the Bonds, the Resolution, the Escrow Agreements and this Purchase Agreement.

(c) The Board has, and at the time of the Closing will have, duly authorized and approved the execution and delivery of, and the performance of the Board's obligations contained in, this Purchase Agreement. This Purchase Agreement has been duly executed and delivered by the Board Representative and constitutes a legal, valid and binding obligation of the Board, enforceable in accordance with its terms.

(d) The Resolution creates a valid lien on the Pledged Revenues, and the Bonds, when validly executed, authenticated, certified and delivered in accordance with the Resolution and sold to the Underwriters as provided herein, will be validly issued and outstanding obligations of the Board entitled to the benefits of the Resolution.

(e) Neither the Board nor the System is in breach of or in default under any applicable law or administrative regulation, any applicable judgment or decree, or any loan agreement, note, resolution, agreement or other instrument to which the Board or the System is a party or by which they or any of their respective properties are otherwise subject, which would have a material and adverse effect upon the business or financial condition of the System or the Pledged Revenues.

(f) The Board is not in breach of or in default under the Resolution or any of its prior resolutions (the "Prior Resolutions") that authorized the issuance of the obligations being refunded by the Bonds (the "Refunded Obligations"), and the execution and delivery of this Purchase Agreement and the Bonds by the Board and the adoption of the Resolution by the Board do not and will not violate or constitute a breach of or default under any existing law, administrative regulation, judgment or decree or any loan agreement, note, resolution, agreement or other instrument to which the Board or the System is a party or by which they or any of their respective properties are otherwise subject.

(g) All approvals, consents and orders of any governmental authority or agency having jurisdiction over any matter which would constitute a condition precedent to the performance by the Board of its obligations to sell and deliver the Bonds hereunder will be obtained prior to the Closing.

(h) At the time of the Board's acceptance hereof and (unless an event occurs of the nature described in Paragraph 3(b)(iii)) at all times subsequent thereto during the period up to and including the date the Underwriters are no longer required pursuant to Rule 15c2-12 to provide the Official Statement to potential customers requesting an Official Statement (as more particularly described in Paragraph 3(b)(iii)), the Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(i) If the Official Statement is supplemented or amended pursuant to Paragraph 3(b)(iii), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto during the period up to and including the date the Underwriters are no longer required pursuant to rule 15c2-12 to provide the Official Statement to potential customers requesting an Official Statement (as more particularly described in Paragraph 3(b)(iii)), the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(j) The proceeds of the sale of the Bonds shall be applied as described in the Official Statement under the caption "SOURCES AND APPLICATIONS OF FUNDS."

(k) The financial data of the Board and the System contained in the Official Statement fairly present the receipts, disbursements, cash balances and financial condition of the Board and the System as of the dates and for the periods therein set forth.

(l) Subsequent to the respective dates as of which information is given in the Official Statement, up to and including the date hereof, there has been no material adverse change in the financial position, results of operations or condition, financial or otherwise, of the Board or the System.

(m) Except as described in the Official Statement, there is not any action, suit, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending or threatened, or that could be reasonably asserted, against the Board or any of its assets in any court, governmental agency, public board or body or before any arbitrator or any government board or body, (i) affecting the System's existence as a state agency or the Board's appointment as its governing body or its powers, or the title of its officers to their respective offices, or (ii) seeking to restrain or enjoin the issuance or delivery of the Bonds, or the collection or application of the Pledged Revenues to pay the principal of and interest on the Bonds, or (iii) in any way contesting or affecting the tax-exempt status of the interest on the Bonds or the Refunded Obligations, or (iv) in any way contesting or affecting the validity or enforceability of the Bonds, the Resolution, this Purchase Agreement, the Escrow Agreement, the Refunded Obligations or the Prior Resolutions, or (v) contesting in any manner the completeness, accuracy, or fairness of the Preliminary Official Statement or the Official Statement, or (vi) which involves the possibility of any ruling, order, judgment or uninsured liability which may result in any material adverse change in the business.

properties or assets or the condition, financial or otherwise, of the System, or (vii) which might in any material respect adversely affect the transactions contemplated herein.

(n) Any certificate or copy of any certificate signed by any official of the Board or the System and delivered to the Representative pursuant hereto or in connection herewith shall be deemed a representation by the Board or the System to each of the Underwriters as to the truth of the statements therein made.

(o) The Board Representative is authorized to act on behalf of the Board, for the purpose of selling the Bonds to the Underwriters, fixing the terms of the Bonds and taking the other actions provided for herein and in the Resolution, and such actions by the Board Representative shall be deemed to be actions by the Board.

(p) The Assistant Vice Chancellor for Finance of the System has been duly authorized to act on behalf of the Board, as the Board Representative, for the purpose of taking the actions provided for herein.

5. **Closing.** (a) At 10:00 a.m., Texas time, on _____, 1996, or at such other time and date as shall have been mutually agreed upon by the Board and the Representative (the "Closing Date"), the Board will, subject to the terms and conditions hereof, deliver the Bonds to the Representative duly executed and authenticated in the form and manner contemplated below, together with the other documents hereinafter mentioned, and the Representative will, subject to the terms and conditions hereof, accept such delivery and pay the respective purchase prices of the Series 1996A Bonds and Series 1996B Bonds as set forth in Paragraph 1 hereof (such events being referred to herein as the "Closing").

(b) Delivery of the Bonds shall be made at the offices of McCall, Parkhurst & Horton L.L.P., 600 Congress Avenue, 31st Floor, Austin, Texas, or such other place as shall have been mutually agreed upon by the Board and the Representative. The Bonds shall be delivered in fully registered form bearing CUSIP numbers without coupons with one Bond for each maturity of each series of Bonds, registered in the name of Lehman Brothers and shall be made available to the Representative at least one business day before the Closing for purposes of inspection.

6. **Closing Conditions.** The Representative has entered into this Purchase Agreement on behalf of itself and the other Underwriters in reliance upon the representations, warranties and agreements of the Board contained herein, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Board of its obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriters' obligations under this Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Board of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the Board contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date.

(b) At the time of the Closing, the Resolution (except with respect to the amended and restated first supplemental resolution, the second supplemental resolution and the third supplemental resolution to the Master Resolution) shall be in full force and effect and shall not have been amended, modified or supplemented, and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Representative.

(c) At the time of the Closing, all official action of the Board relating to this Purchase Agreement, the Bonds, the Resolution and the Escrow Agreement shall be in full force and effect and shall not have been amended, modified or supplemented; and the Representative shall have received, in appropriate form, evidence thereof.

(d) At the time of the Closing, there shall not have occurred any change in the condition, financial or otherwise, or in the earnings or operations of the Board, from that set forth in the Official Statement that, in the judgment of the Representative, is material and adverse and that makes it, in the judgment of the Representative, impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

(e) The Board shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money or otherwise be in default on any such obligation, and there does not exist any event which, with the giving of notice, would constitute a default.

(f) At or prior to the Closing, the Representative shall have received each of the following documents:

(i) The Official Statement executed on behalf of the Board by the Board Representative.

(ii) The Resolution certified by the Executive Secretary of the Board, under the Board's seal, as having been duly adopted by the Board and as being in effect, with such changes or amendments as may have been agreed to by the Underwriters.

(iii) A copy of all proceedings of the Board relating to the authorization of this Purchase Agreement and to the authorization and issuance of the Bonds, certified as true, accurate and complete by the Executive Secretary of the Board.

(iv) An unqualified opinion or certificate, dated on or prior to the Closing Date, of the Attorney General of the State of Texas, approving the Bonds.

(v) A letter, dated as of or prior to the Closing Date, from the Texas Bond Review Board approving the issuance of the Bonds.

(vi) A certificate, dated the Closing Date, of the Vice Chancellor and General Counsel of the System to the effect that there is not any action, suit, investigation, inquiry or proceeding (whether or not purportedly on behalf of the Board) pending, or, to the best of his or her knowledge, threatened or that could be reasonably asserted, against the Board or any of its assets in any court, governmental agency, public board or body or before any arbitrator or before or by any governmental body, (A) affecting the System's existence as a state agency or the Board's appointment as its governing body or its powers, or the title of its officers to their respective offices, or (B) seeking to restrain or enjoin the issuance or delivery of the Bonds, or the collection or application of the Pledged Revenues to pay the principal of and interest on the Bonds, or (C) in any way contesting or affecting the tax-exempt status of the interest on the Bonds or the Refunded Obligations, or (D) in any way contesting or affecting the validity or enforceability of the Bonds, the Resolution, this Purchase Agreement, the Escrow Agreement, the Refunded Obligations or the Prior Resolutions, or (E) contesting in any manner the completeness, accuracy, or fairness of the Preliminary Official Statement or the Official Statement, or (F) which involves the possibility of any ruling, order, judgment or uninsured liability which may result in any material adverse change in the business, properties or assets or the condition, financial or otherwise, of the System, or (G) which might in any material respect adversely affect the transactions contemplated herein.

(vii) A certificate, dated the Closing Date, signed by the Board Representative, to the effect that (A) to the best of his knowledge: (1) the representations and warranties of the Board contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date; (2) the Official Statement does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (3) no event affecting the Board, the System or the Pledged Revenues has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any respect; and (4) there has not been any material adverse change in the financial condition of the System or the Pledged Revenues from that reflected in the financial statements and other financial information contained in the Official Statement; and (B) on the basis of (1) a reading of the Official Statement and of the

financial statements of the System, (2) consultations with Board members, officers and other officials of the Board and the System responsible for financial and accounting matters, and (3) a reading of the minutes of the meetings of the Board, nothing has come to his attention which causes him to believe that as of a subsequent specified date not more than five business days prior to the Closing Date, there was (x) any material change in long-term debt of the System as compared with the amount shown in such financial statements, except for changes that the Official Statement discloses or changes that have occurred or may occur which are described in such certificate or (y) any material decrease in total assets or total fund balance of the System, in each case as compared with amounts shown in such financial statements, except in all instances for changes or decreases that the Official Statement discloses or that have occurred or may occur which are described in such certificate.

(viii) An unqualified bond opinion relating to the Bonds dated the Closing Date, of McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, Bond Counsel, in substantially the form attached to the Official Statement as Appendix D.

(ix) A supplemental opinion relating to the Bonds addressed to the Underwriters and dated the Closing Date, of Bond Counsel, in substantially the form attached hereto as Exhibit C.

(x) An opinion, dated the Closing Date, of Vinson & Elkins L.L.P., Austin and Houston, Texas, counsel to the Underwriters, in form and substance satisfactory to the Underwriters.

(xi) A letter from Fitch Investors Service, a letter from Moody's Investors Service and a letter from Standard & Poor's, a division of The McGraw Hill Companies, to the effect that the Bonds have been rated "AA+," "Aa1," and "AA+," respectively.

(xii) A certificate by an appropriate official of the Board or the System to the effect that, on the basis of the facts, estimates and circumstances in effect on the date of delivery of the Bonds, it is not expected that the proceeds of the Bonds will be used in a manner that would cause such Bonds to be arbitrage bonds within the meaning of section 148 of the Code.

(xiii) A report of KPMG Peat Marwick LLP, independent certified public accountants, stating that such firm has verified the mathematical accuracy of certain computations based upon assumptions provided to them relating to (A) the adequacy of the maturing principal amounts of the Federal Securities and the interest thereon held in the Escrow Fund established by the Escrow Agreement on the Closing Date to pay when due all of the principal of and interest on the Refunded Obligations, and

(B) certain mathematical computations used by Bond Counsel to support its opinion that the Bonds are not arbitrage bonds within the meaning of section 148 of the Code.

(xiv) A fully executed copy of the Escrow Agreement which (together with any other appropriate documentation) evidences that all Federal Securities and cash required to be deposited with the Escrow Agent on the Closing Date have been purchased by or delivered to the Escrow Agent, all as described in the Official Statement, together with a certificate, dated as of the Closing Date, executed by an appropriate official of the Escrow Agent, to the effect that the Escrow Agreement has been duly authorized, executed, and entered into by the Escrow Agent.

(xv) Such additional legal opinions, certificates, instruments and other documents as the Underwriters may reasonably request to evidence the truth, accuracy and completeness, as of the date hereof and as of the Closing Date, of the Board's representations and warranties contained herein and of the statements and information contained in the Official Statement, and the due performance and satisfaction by the Board at or prior to the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the Board.

(xvi) The Board will agree in the Resolution to provide certain periodic information and notices of material events in accordance with Rule 15c2-12, as described in the Official Statement under "Continuing Disclosure of Information". The Underwriters' obligation to accept and pay for the Bonds is conditioned upon delivery to the Underwriters or their agent of a certified copy of the Resolution containing the agreement described under such heading.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Representative.

If the Board shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Underwriters nor the Board shall be under any further obligation hereunder, except that the respective obligations of the Board and the Underwriters set forth in Paragraphs 8 and 10 hereof shall continue in full force and effect.

7. **Termination.** The Representative shall have the right to terminate in its absolute discretion the Underwriters' obligations under this Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds by notifying the Board of its election to do so if, after the execution hereof and prior to the Closing:

(a) (i) Legislation (including any amendment thereto) shall have been introduced in or adopted by either House of the Congress of the United States or recommended to the Congress or otherwise endorsed for passage by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is under consideration by either such committee or is introduced as an option for consideration by either such committee by the staff of such committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Internal Revenue Code (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either house, or (ii) a decision shall have been rendered by a court established under Article III of the Constitution of the United States or by the United States Tax Court, or (iii) an order, filing, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service or any other agency of the United States, or (iv) a release or official statement shall have been issued by the President of the United States or by the Treasury Department of the United States or by the Internal Revenue Service, the effect of which, in any such case described in clause (i), (ii), (iii), or (iv), would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds or upon income of the general character to be derived by the Board, other than as imposed on the Bonds and income therefrom under the federal tax laws in effect on the date hereof, in such a manner as in the judgment of the Representative would make it impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

(b) Any action shall have been taken by the Securities and Exchange Commission or by a court which would require registration of any security under the Securities Act of 1933, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Bonds, or any action shall have been taken by any court or by any governmental authority suspending the use of the Official Statement or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) The Constitution of the State of Texas shall be amended or an amendment shall be proposed, or (ii) legislation shall be enacted, or (iii) a decision shall have been rendered as to matters of Texas law, or (iv) any order, ruling or regulation shall have been issued or proposed by or on behalf of the State of Texas by an official, agency or department thereof, affecting the tax status of the Board, its property or income, its notes or bonds (including the Bonds) or the interest thereon, which in the judgment of the Representative would make it impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

(d) Any fact or event shall exist or have existed that, in the Representative's judgment, requires or has required an amendment of or supplement to the Official Statement.

(e) (i) (A) Trading generally shall have been suspended or materially limited on or by, as the case may be, either of the New York Stock Exchange or the American Stock Exchange, (B) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities, or (C) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the reasonable judgment of the Representative, is material and adverse and (ii) in the case of any of the events specified in clauses (A) through (C), such event singly or together with any other such event makes it, in the judgment of the Representative, impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

(f) There shall have occurred any downgrading, or any notice shall have been given of (i) any intended or potential downgrading or (ii) any review or possible change that does not indicate the direction of a possible change, in the rating accorded any of the Board's Parity Debt obligations (including the ratings to be accorded the Bonds) by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act of 1933, as amended.

(g) Legislation shall have been enacted by the federal government or the State of Texas, a decision of any federal or State of Texas court shall have been made, or a ruling or regulation (proposed, temporary or final) of the Securities and Exchange Commission or other governmental agency shall have been made or issued that, in the opinion of Underwriters' Counsel, has the effect of requiring the contemplated distribution of the Bonds or any agreement offered in connection therewith to be registered under the Securities Act of 1933, as amended, or the Resolution to be qualified as an indenture under the Trust Indenture Act of 1939, as amended.

(g) The purchase of and payment for the Bonds by the Underwriters, or the resale of the Bonds by the Underwriters, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission.

8. **Expenses.** (a) The Underwriters shall be under no obligation to pay, and the Board shall pay, all expenses incident to the performance of the obligations of the Board hereunder, including, but not limited to: (i) the cost of the printing or other reproduction (for distribution prior to, on or after the date of acceptance of this Purchase Contract) of the Resolution, the Preliminary Official Statement and the Official Statement, together with the number of copies the Underwriters deem reasonable; (ii) the fees and disbursements of Bond Counsel and any other consultants, advisors or counsel retained by the System or the Board; (iii) the fees, if any, for ratings of any of the Bonds; and (iv) all advertising expenses in connection with the public offering of the Bonds. The foregoing fees and expenses shall be paid promptly upon receipt of an invoice therefor.

(b) The Underwriters shall pay (i) the fees and disbursements of counsel for the Underwriters, and (ii) all other reasonable customary expenses incurred by the Underwriters in

connection with their public offering and distribution of the Bonds, other than the costs and items described in Paragraph 8(a) above.

9. **Notices.** Any notice or other communication to be given to the Board under this Purchase Agreement may be given by delivering the same in writing at 201 West 7th Street, Austin, Texas 78701, Attention: Assistant Vice Chancellor for Finance, and any notice or other communication to be given to the Underwriters under this Purchase Agreement may be given by delivering the same in writing to the Representative, Lehman Brothers, Three World Financial Center, 20th Floor, New York, New York 10285, Attention: John H. Augustine, Senior Vice President, Public Finance.

10. **Parties in Interest.** This Purchase Agreement as heretofore specified shall constitute the entire agreement between the Board and the Underwriters and is made solely for the benefit of the Board and the Underwriters (including successors or assigns of any Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. This Purchase Agreement may not be assigned by the Board. All of the Board's representations, warranties and agreements contained in this Purchase Agreement shall remain operative and in full force and effect, regardless of (a) any investigations made by or on behalf of any of the Underwriters; (b) delivery of and payment for the Bonds pursuant to this Purchase Agreement; and (c) any termination of this Purchase Agreement.

11. **Effectiveness.** This Purchase Agreement shall become effective upon the acceptance hereof by the Board and shall be valid and enforceable at the time of such acceptance.

12. **CHOICE OF LAW. THIS PURCHASE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.**

13. **Representative Capacity.** The Representative represents that it has been duly authorized by the Underwriters to execute this Purchase Agreement and to act hereunder by and on behalf of the other Underwriters. Any authority, right, discretion or other power conferred upon the Underwriters or the Representative under any provision of this Purchase Agreement may be exercised by the Representative, and the Board shall be entitled to rely upon any request, notice or statement if the same shall have been given or made by the Representative.

14. **Severability.** If any provision of this Purchase Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.

15. **Business Day.** For purposes of this Purchase Agreement, "business day" means any day on which the New York Stock Exchange is open for trading.

16. **Paragraph Headings.** Paragraph headings have been inserted in this Purchase Agreement as a matter of convenience of reference only, and it is agreed that such paragraph headings are not a part of this Purchase Agreement and will not be used in the interpretation of any provisions of this Purchase Agreement.

17. **Counterparts.** This Purchase Agreement may be executed in several counterparts each of which shall be regarded as an original (with the same effect as if the signatures thereto and hereto were upon the same document) and all of which shall constitute one and the same document.

Very truly yours,

LEHMAN BROTHERS

By _____
As Representative

Accepted and agreed to this
_____ day of _____, 1996.

THE BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

By: _____
Assistant Vice Chancellor for Finance

LIST OF UNDERWRITERS

Lehman Brothers
Artemis Capital Group, Inc.
Bear, Stearns & Co., Inc.
First Southwest Company
Goldman, Sachs & Co.
Grigsby Brandford & Co., Inc.
Merrill Lynch & Co.
M.R. Beal & Company
Rauscher Pierce Refsnes, Inc.
Reinoso & Company Incorporated
Smith Barney Inc.

TERMS OF THE BONDS

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS
SYSTEM REVENUE FINANCING SYSTEM BONDS
SERIES 1996A**

PRINCIPAL AMOUNT

\$ _____

MATURITY SCHEDULE

\$ _____ Serial Bonds

<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>
--------------------------------	---------------	-------------	-----------------------

\$ _____ % Series 1996A Term Bond Due August 15, _____
Price _____ %

GENERAL DESCRIPTION OF SERIES 1996A BONDS

The Series 1996A Bonds will be issued as Current Interest Bonds, will be dated _____, 1996, will mature on the dates and in the amounts set forth above, and will bear interest at the rates set forth above from their date and will be payable February 15 and August 15 of each year, commencing August 15, 1996 until maturity or prior redemption.

The Series 1996A Bonds shall be initially issued as one bond for each maturity and registered in the name of Lehman Brothers. Bonds registered in the name of Lehman Brothers shall, immediately following their delivery, be exchanged for Series 1996A Bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, pursuant to the Book-Entry Only System described in the Resolution. Beneficial ownership of the Series 1996A Bonds may be acquired in denominations of \$5,000 or integral multiples thereof.

REDEMPTION PROVISIONS

Optional Redemption. On August 15, _____ or on any date thereafter, the Series 1996A Bonds scheduled to mature on August 15, _____, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Series 1996A Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Series 1996A Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price (expressed as a percentage of principal amount as of the date of redemption) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following redemption schedule, plus accrued interest to the date fixed for redemption; provided that during any period in which ownership of the Series 1996A Bonds is determined by a book entry at a securities depository for the Series 1996A Bonds, if fewer than all of the Series 1996A Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 1996A Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository:

<u>Redemption Period</u>	<u>Redemption Price</u>
August 15, _____ through August 14, 2006	_____%
August 15, _____ through August 14, 2007	_____%
August 15, _____ and thereafter	_____%

Mandatory Sinking Fund Redemption. The Series 1996A Bonds scheduled to mature on August 15, _____ are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, with the particular Series 1996A Bonds or portions thereof to be redeemed to be selected and designated by the Board (provided that a portion of a Series 1996A Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof and accrued interest to the date of redemption, on the date, and in the principal amount set forth in the following schedule:

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, _____	\$ _____

The principal amount of the Series 1996A Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the

option of the Board, by the principal amount of any Series 1996A Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by the Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Series 1996A Bonds. During any period in which ownership of the Series 1996A Bonds is determined by a book entry at a securities depository for the Series 1996A Bonds, if fewer than all of the Series 1996A Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 1996A Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS
SYSTEM REVENUE FINANCING SYSTEM BONDS
SERIES 1996B

PRINCIPAL AMOUNT

\$ _____

MATURITY SCHEDULE

\$ _____ Serial Bonds

<u>Due</u> <u>August 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price or Yield</u>
--------------------------------	---------------	-------------	-----------------------

\$ _____ % Series 1996B Term Bond Due August 15, _____
Price _____ %

GENERAL DESCRIPTION OF SERIES 1996B BONDS

The Series 1996B Bonds will be issued as Current Interest Bonds, will be dated _____, 1996, will mature on the dates and in the amounts set forth above, and will bear interest at the rates set forth above from their date and will be payable February 15 and August 15 of each year, commencing August 15, 1996 until maturity or prior redemption.

The Series 1996B Bonds shall be initially issued as one bond for each maturity and registered in the name of Lehman Brothers. Bonds registered in the name of Lehman Brothers shall, immediately following their delivery, be exchanged for Series 1996B Bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, pursuant to the Book-Entry Only System described in the Resolution. Beneficial ownership of the Series 1996B Bonds may be acquired in denominations of \$5,000 or integral multiples thereof.

REDEMPTION PROVISIONS

Optional Redemption. On August 15, _____ or on any date thereafter, the Series 1996B Bonds scheduled to mature on August 15, _____, and thereafter may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any available and lawful source, as a whole, or in part, and, if in part, the particular Series 1996B Bonds, or portion thereof, to be redeemed shall be selected and designated by the Board (provided that a portion of a Series 1996B Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price (expressed as a percentage of principal amount as of the date of redemption) applicable to the date of redemption falling within the applicable redemption period, as set forth in the following redemption schedule, plus accrued interest to the date fixed for redemption; provided that during any period in which ownership of the Series 1996B Bonds is determined by a book entry at a securities depository for the Series 1996B Bonds, if fewer than all of the Series 1996B Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 1996B Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository:

<u>Redemption Period</u>	<u>Redemption Price</u>
August 15, _____ through August 14, 2006	_____%
August 15, _____ through August 14, 2007	_____%
August 15, _____ and thereafter	_____%

Mandatory Sinking Fund Redemption. The Series 1996B Bonds scheduled to mature on August 15, _____ are subject to mandatory sinking fund redemption prior to their scheduled maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, with the particular Series 1996B Bonds or portions thereof to be redeemed to be selected and designated by the Board (provided that a portion of a Series 1996B Bond may be redeemed only in an integral multiple of \$5,000), at a redemption price equal to the par or principal amount thereof and accrued interest to the date of redemption, on the date, and in the principal amount set forth in the following schedule:

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, _____	\$ _____

The principal amount of the Series 1996B Bonds required to be redeemed on each such redemption date pursuant to the foregoing operation of the mandatory sinking fund shall be reduced, at the

option of the Board, by the principal amount of any Series 1996B Bonds, which, at least 45 days prior to the mandatory sinking fund redemption date, (1) shall have been acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been acquired and canceled by the Paying Agent/Registrar at the direction of the Board, in either case of (1) or (2) at a price not exceeding the par or principal amount of such Series 1996B Bonds. During any period in which ownership of the Series 1996B Bonds is determined by a book entry at a securities depository for the Series 1996B Bonds, if fewer than all of the Series 1996B Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Series 1996B Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the Board and the securities depository.

Exhibit C

**[Attach form of Official Statement completed as provided in
Paragraph 1 hereof]**

FORM OF BOND COUNSEL'S SUPPLEMENTAL OPINION

_____, 1996

The Board of Regents of
The University of Texas System
210 West 6th Street
Austin, Texas 78701

Lehman Brothers
as Representative of the
Underwriters listed in the
Purchase Agreement relating
to the captioned Bonds

Re: \$ _____ Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996A, and \$ _____ Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996B

Ladies and Gentlemen:

The undersigned have been retained by the Board of Regents of The University of Texas System (the "Board"), as bond counsel with reference to the above issue of bonds (collectively, the "Bonds"), which were authorized by the Master Resolution and the Supplemental Resolution (collectively, the "Bond Resolution"). Pursuant to the Bond Resolution, the Board entered into a Purchase Agreement dated _____, 1996 (the "Purchase Agreement") relating to the Bonds with Lehman Brothers on behalf of itself and the other underwriters listed in the Purchase Agreement (collectively, the "Underwriters"). Terms used herein and not otherwise defined have the meaning given in the Purchase Agreement.

It is our opinion that the Bonds are exempt securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and that it is not necessary in connection with the offer and sale of the Bonds to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Bond Resolution under the Trust Indenture Act of 1939, as amended.

We were not requested to participate, and did not take part, in the preparation of the Official Statement prepared in connection with the sale of the Bonds (the "Official Statement"), and except to the extent noted herein, we have not verified and are not passing upon and do not assume any responsibility for, the accuracy, completeness, or fairness of the statements contained in the Official Statement. We have, however, reviewed the information relating to the Revenue Financing System, the Bonds, and the Bond Resolution contained in the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCING," "SOURCES AND APPLICATIONS OF FUNDS," "DESCRIPTION OF THE BONDS," "DESCRIPTION OF THE REVENUE FINANCING SYSTEM," "LEGAL MATTERS," "CONTINUING DISCLOSURE OF INFORMATION," "TAX MATTERS," "LEGAL INVESTMENTS IN TEXAS," Appendix A, "GLOSSARY OF TERMS," and Appendix B, "SUMMARY OF THE MASTER RESOLUTION" (except for financial and

statistical data contained under any of the foregoing), and we are of the opinion that the information relating to the Revenue Financing System, the Bonds, and the Bond Resolution contained under such captions is a fair and accurate summary of the information purported to be shown therein.

It is further our opinion that the Escrow Agreement, dated _____, 1996 (the "Escrow Agreement"), between the Board and Texas Commerce Bank National Association (the "Escrow Agent"), executed in connection with the delivery of the Bonds, has been duly authorized, executed, and delivered and (assuming due authorization by the Escrow Agent) constitutes a binding agreement, enforceable in accordance with its terms, and that the Refunded Obligations, as defined in the Escrow Agreement, being refunded by the Bonds, are outstanding under the resolutions authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the report and mathematical verifications of KPMG Peat Marwick L.L.P., certified public accountants, with respect to the adequacy of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement to provide for the timely payment and retirement of the principal of and interest on the Refunded Obligations. Further, the opinions expressed in this paragraph are expressed only insofar as the laws of the State of Texas and of the United States of America may be applicable and are qualified to the extent that (i) enforceability of the Escrow Agreement may be limited by bankruptcy, reorganization, insolvency, moratorium, or other similar laws of general application in effect from time to time relating to or affecting the enforcement of creditors' rights and (ii) certain equitable remedies, including specific performance, or legal remedies awarded pursuant to principles of equity, including mandamus, may be unavailable.

This letter is furnished to you by us, and is solely for your benefit, and no one other than the Board and the Underwriters is entitled to rely upon this letter.

Respectfully,