



TABLE OF CONTENTS FOR FINANCE AND PLANNING COMMITTEE

Committee Meeting: 5/13/2009

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

Board Meeting: 5/14/2009
Austin, Texas

	Committee Meeting	Board Meeting	Page
Convene	<i>1:15 p.m.</i> <i>Chairman Foster</i>		
1. U. T. System: Discussion and appropriate action related to approval of <i>Docket No. 138</i>	<i>1:15 p.m.</i> Discussion <i>Dr. Kelley</i>	Action	16
2. U. T. System: Key Financial Indicators Report and Monthly Financial Report	<i>1:20 p.m.</i> Report <i>Dr. Kelley</i>	Not on Agenda	16
3. U. T. System: Approval of the Fiscal Year 2010 Budget Preparation Policies and Calendar	<i>1:30 p.m.</i> Action <i>Mr. Wallace</i>	Action	25
4. U. T. System Board of Regents: Adoption of an Amended and Restated Resolution authorizing the issuance, sale, and delivery of Permanent University Fund Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions	<i>1:35 p.m.</i> Action <i>Mr. Aldridge</i>	Action	28
5. U. T. System Board of Regents: Adoption of a Supplemental Resolution authorizing the issuance, sale, and delivery of Revenue Financing System Bonds, authorization to designate all or a portion of the bonds as Build America Bonds, and authorization to complete all related transactions	<i>1:37 p.m.</i> Action <i>Mr. Aldridge</i>	Action	29
6. U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund	<i>1:40 p.m.</i> Action <i>Mr. Zimmerman</i>	Action	31
7. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended February 28, 2009	<i>1:45 p.m.</i> Report <i>Mr. Zimmerman</i>	Report	34

**Pending approval by Board*

	Committee Meeting	Board Meeting	Page
8. U. T. System: Discussion with representative chief business officers of U. T. System health institutions regarding the business challenges and opportunities of partnership contracts and relationships	1:50 p.m. Discussion <i>Dr. Kelley</i> <i>Mr. Kevin Dillon, U. T. Health Science Center - Houston</i> <i>Mr. John Roan, U. T. Southwestern Medical Center – Dallas</i>	Not on Agenda	41
Adjourn	2:15 p.m.		

1. **U. T. System: Discussion and appropriate action related to approval of Docket No. 138**

RECOMMENDATION

It is recommended that *Docket No. 138* be approved.

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

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

2. **U. T. System: Key Financial Indicators Report and Monthly Financial Report**

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report, as set forth on Pages 17 - 24 that follow, and the March Monthly Financial Report included in Volume 2. The reports represent the consolidated and individual operating results of the U. T. System institutions.

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

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

Supplemental Materials: March Monthly Financial Report on Pages 21 - 45 of Volume 2.

THE UNIVERSITY OF TEXAS SYSTEM



QUARTERLY KEY FINANCIAL INDICATORS REPORT

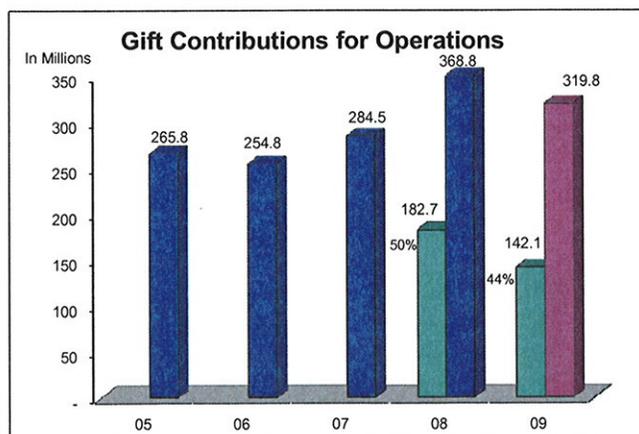
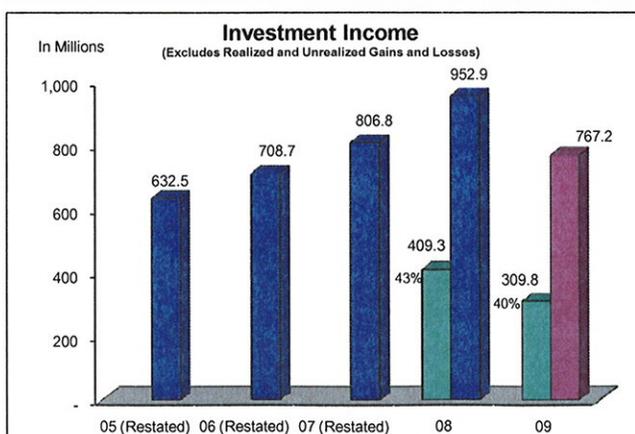
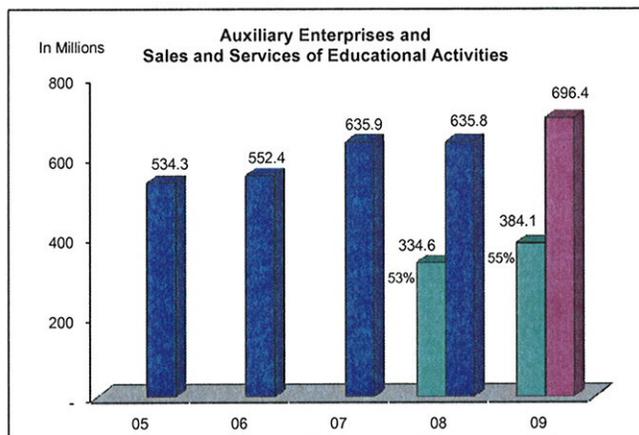
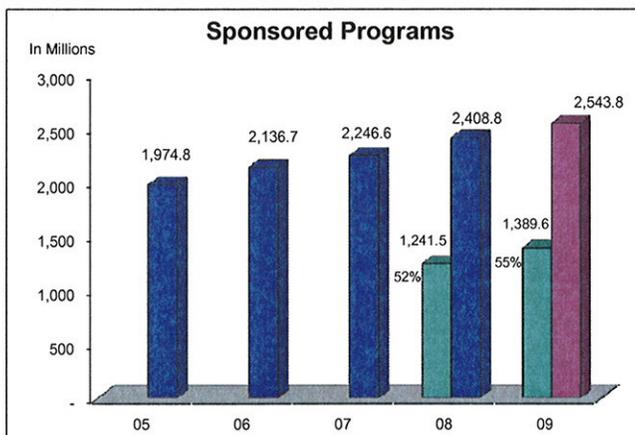
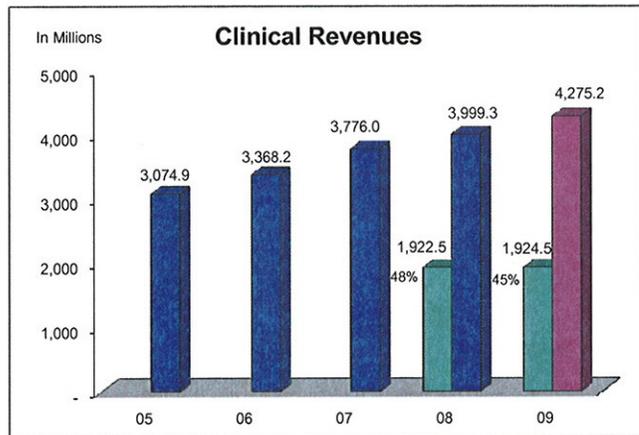
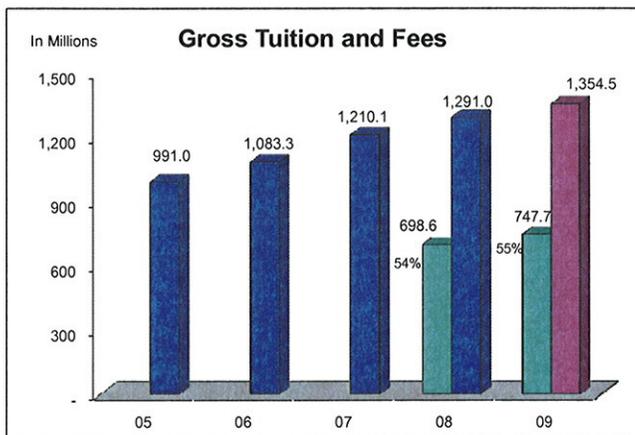
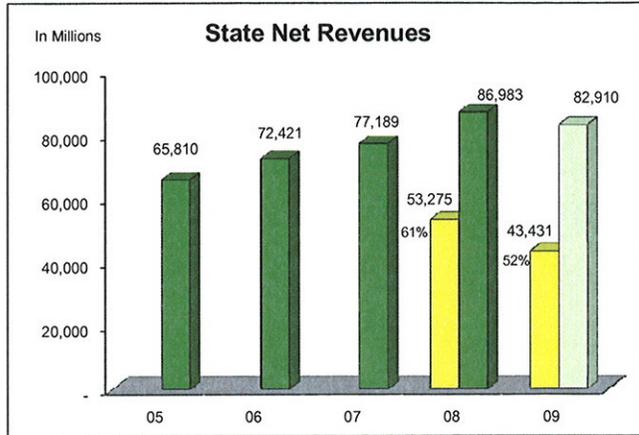
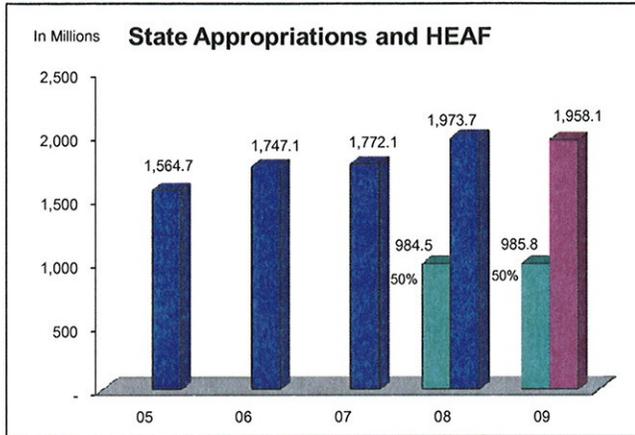
2ND QUARTER FY 2009

KEY

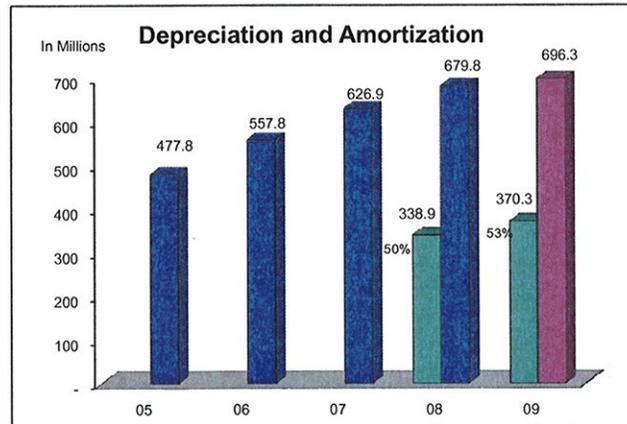
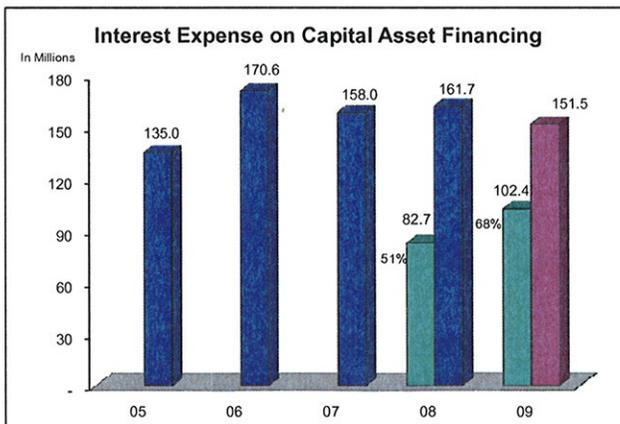
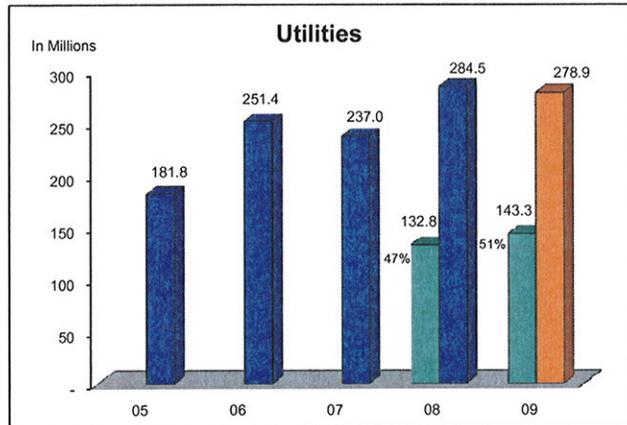
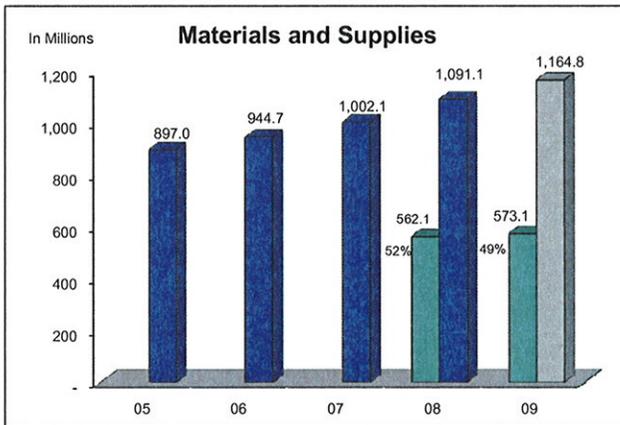
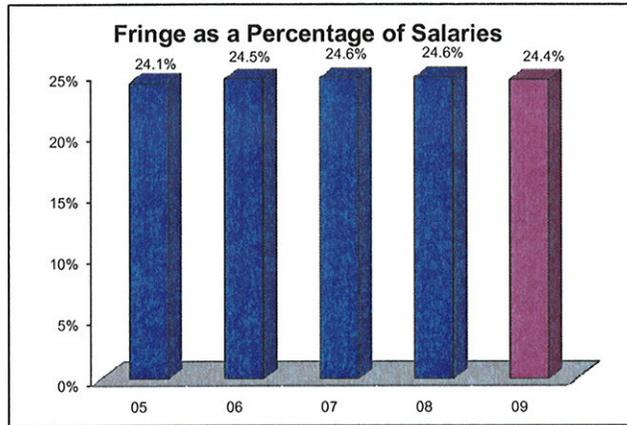
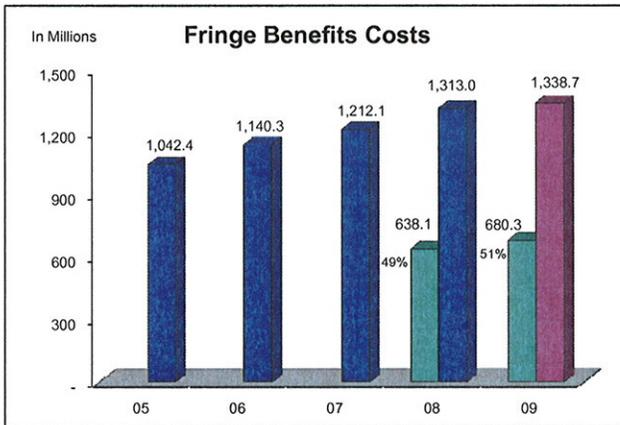
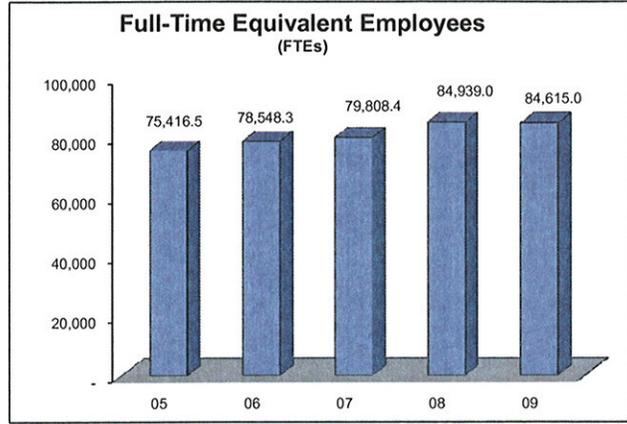
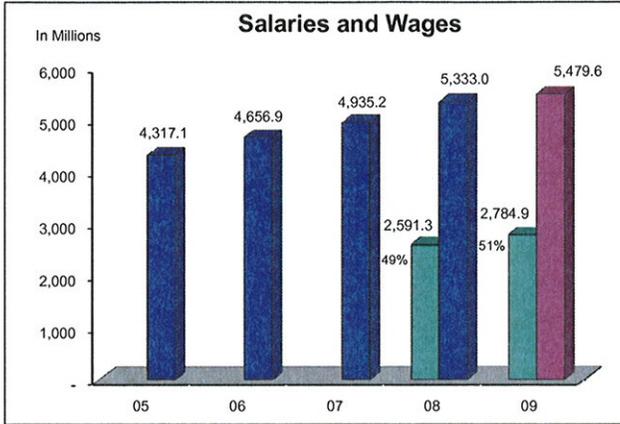
	Actual Annual Amounts (SOURCE: Annual Financial Reports)
	Budget amounts (SOURCE: Operating Budget Summary)
	Projected Amounts based on the average change of the previous three years of data
	Monthly Financial Report Year-to-Date Amounts
	Annual State Net Revenue Collections (SOURCE: Texas Revenue History by Source and Texas Net Revenue by Source, State Comptroller's Office)
	Year-to-Date State Net Revenue Collections (SOURCE: State Comptroller's Office)
	Estimated State Revenue Collections (SOURCE: Biennial Revenue Estimate, State Comptroller's Office)
	Annual and Quarterly Average of FTEs (SOURCE: State Auditor's Office Quarterly FTE Report)
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Projected Amounts from current month projections
	Year-to-Date Margin (SOURCE: Monthly Financial Report)
	Target Normalized Rates
	Aaa/Aa1 Median (SOURCE: Moody's)
	A2 Median (SOURCE: Moody's)
	Good Facilities Condition Index (Below 5%)
	Fair Facilities Condition Index (5% - 10%)

**KEY INDICATORS OF REVENUES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009**

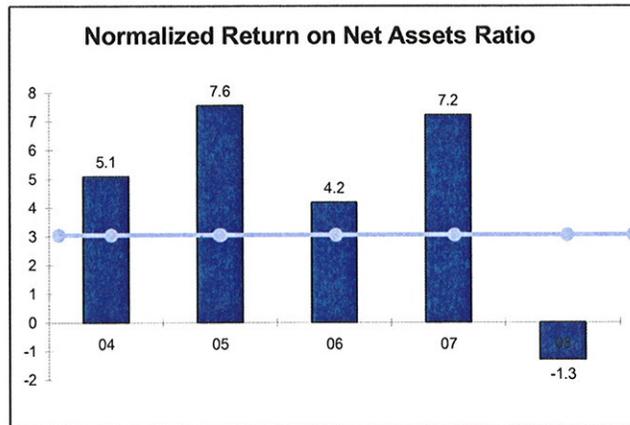
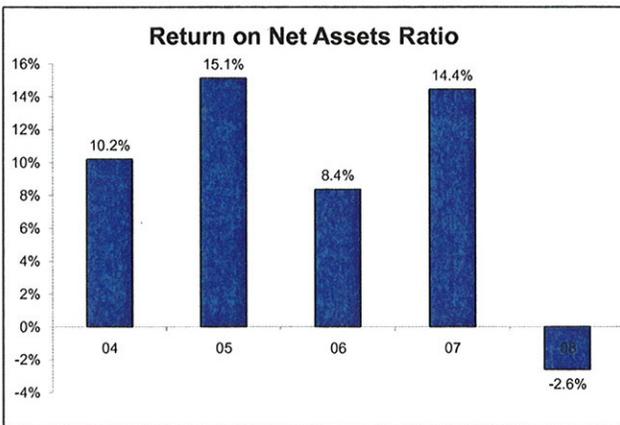
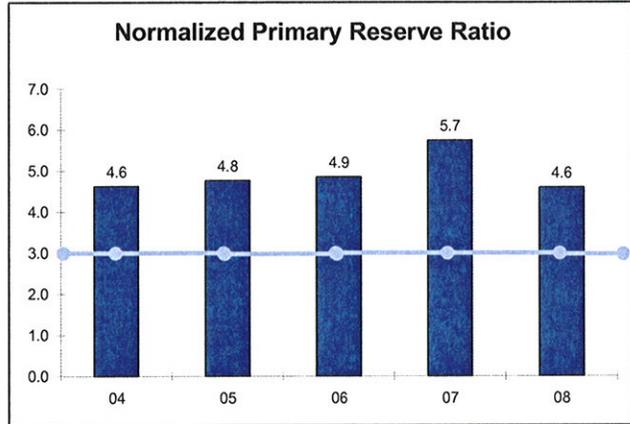
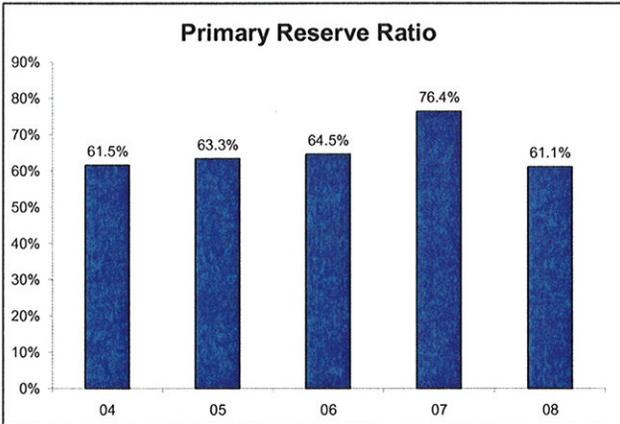
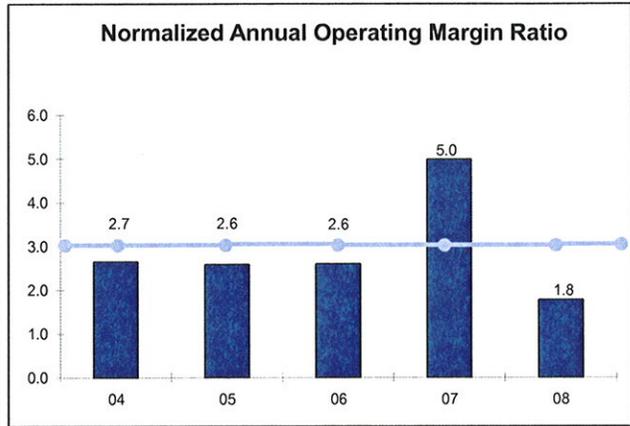
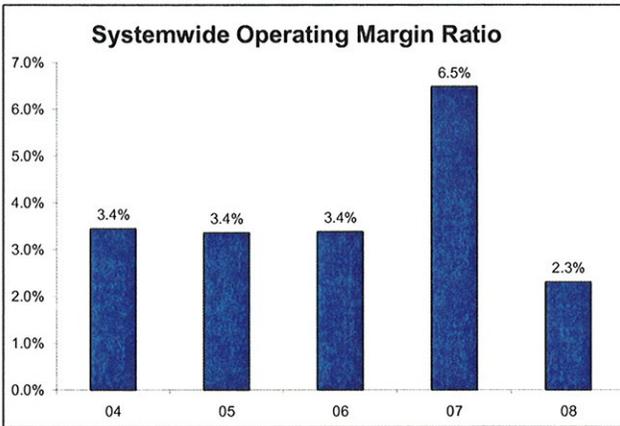
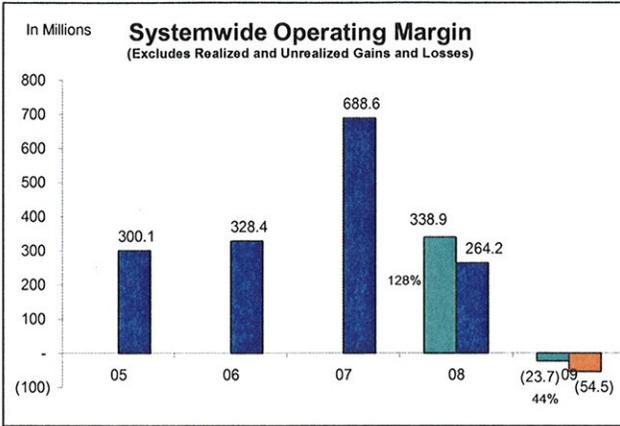
YEAR-TO-DATE 2008 AND 2009 FROM FEBRUARY MONTHLY FINANCIAL REPORT



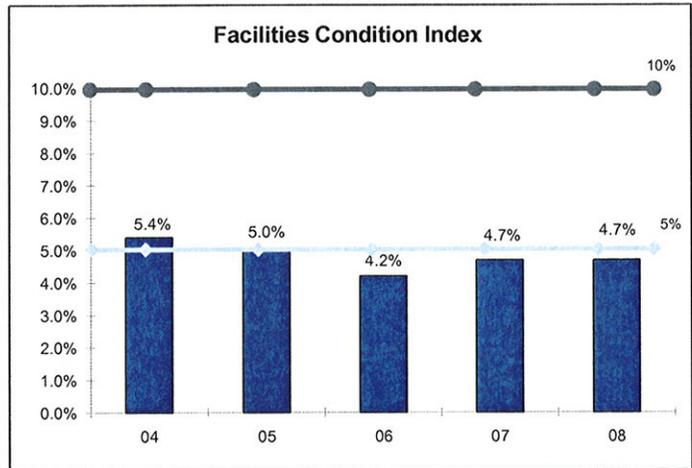
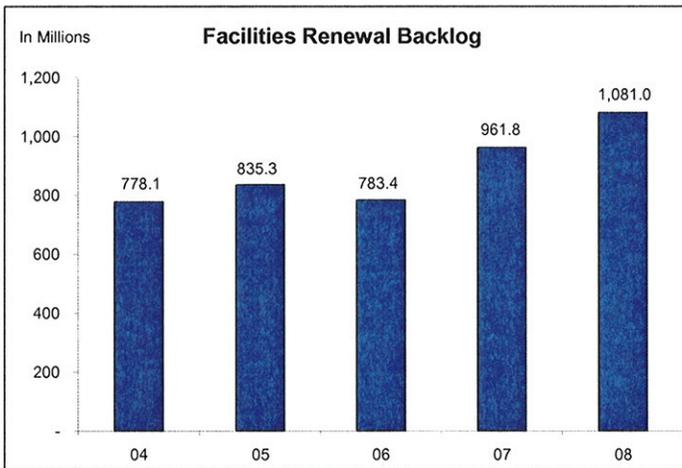
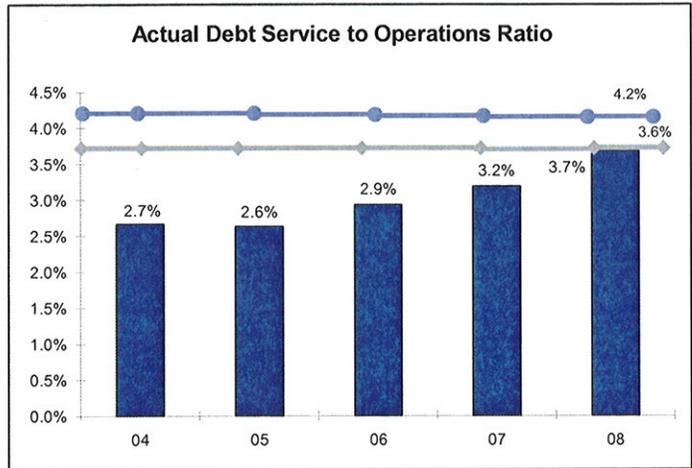
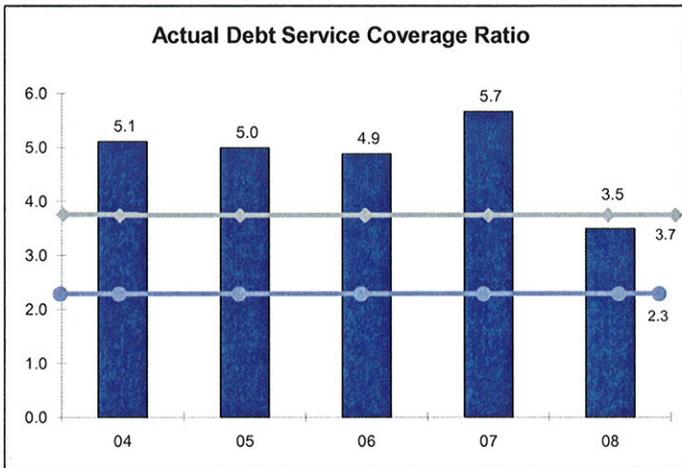
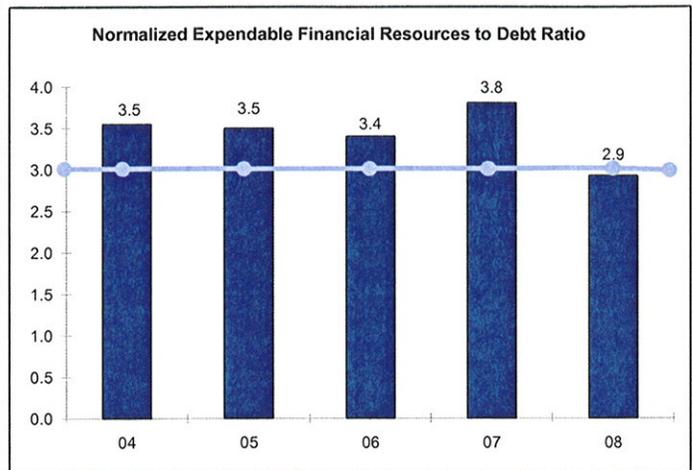
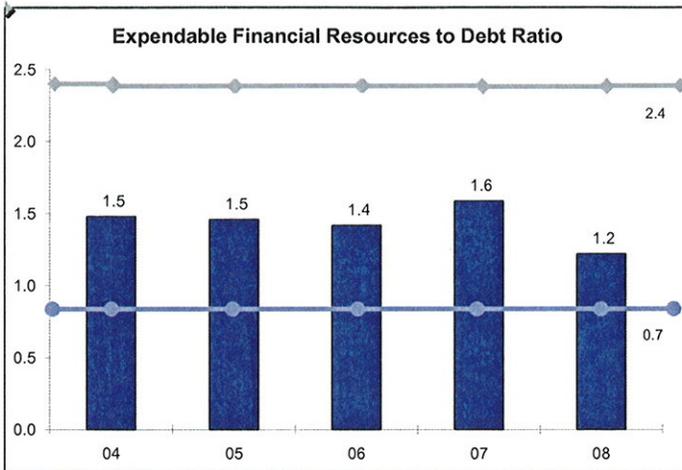
**KEY INDICATORS OF EXPENSES
ACTUAL 2005 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM FEBRUARY MONTHLY FINANCIAL REPORT**



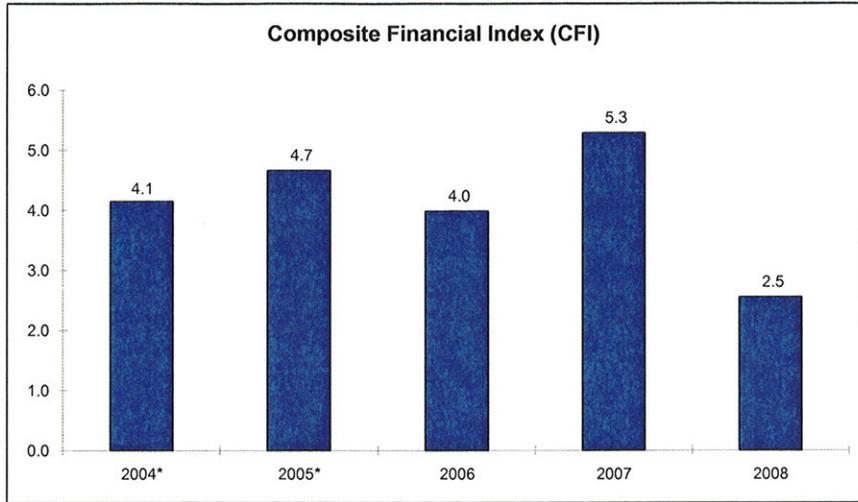
KEY INDICATORS OF RESERVES
ACTUAL 2004 THROUGH 2008
PROJECTED 2009
YEAR-TO-DATE 2008 AND 2009 FROM FEBRUARY MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2004 THROUGH 2008

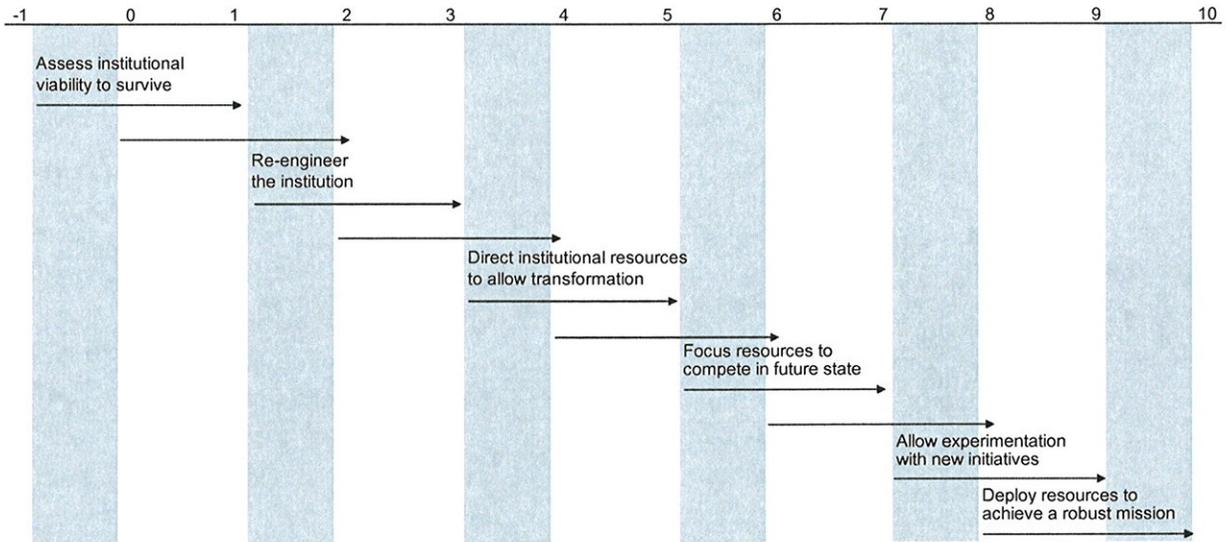


KEY INDICATORS OF FINANCIAL HEALTH 2004 THROUGH 2008

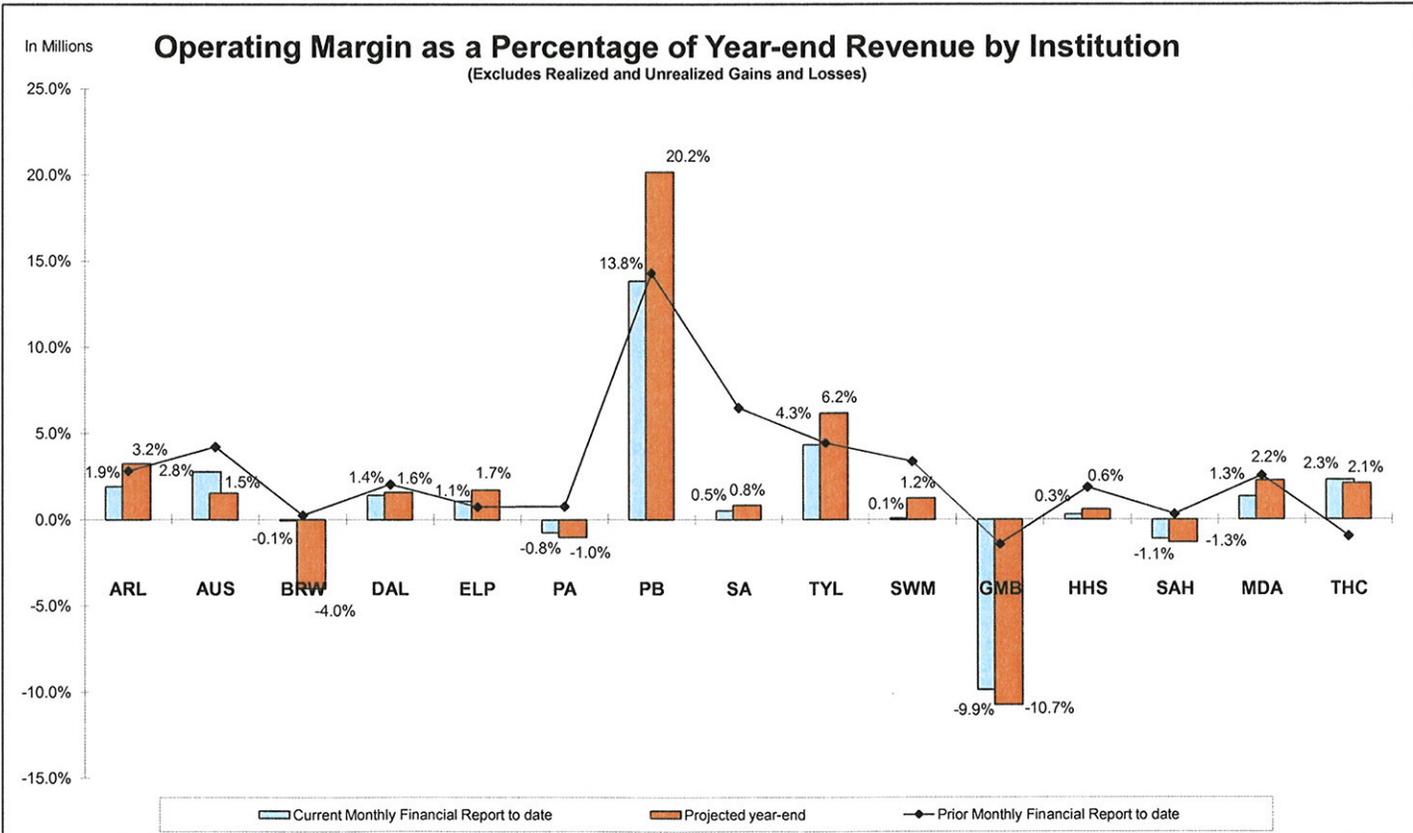
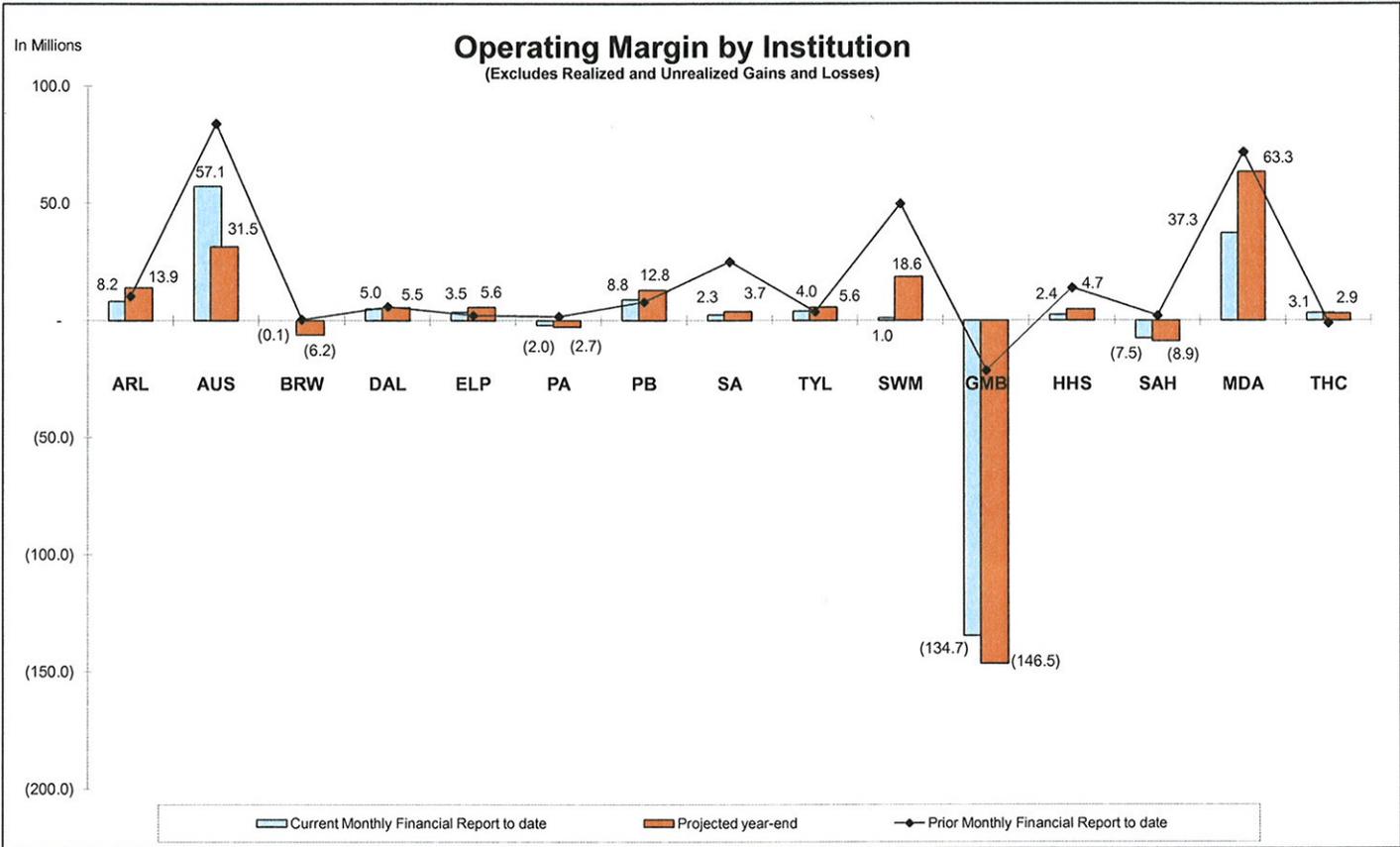


*Restated to reflect appreciation on endowments as restricted expendable net assets as a result of the 2006 external audit

Scale for Charting CFI Performance



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



3. **U. T. System: Approval of the Fiscal Year 2010 Budget Preparation Policies and Calendar**

RECOMMENDATION

With the concurrence of the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Executive Vice Chancellor for Health Affairs, and in consultation with Vice Chairman Foster and Regent Hicks pursuant to Chairman Huffines' April 13, 2009 directive to work with the Chancellor on reviewing the System's budget, the Chancellor recommends that the U. T. System Board of Regents approve the Budget Preparation Policies and Calendar for use in preparing the Fiscal Year 2010 Operating Budget for the U. T. System as set out below:

U. T. System Fiscal Year 2010 Budget Preparation Policies

General Guidelines - The regulations and directives that will be included in the General Appropriations Act to be enacted by the 81st Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the Fiscal Year 2010 Operating Budget, the president of each institution should adhere to guidelines and policies as detailed below and as included in the General Appropriations Act. Following legislative approval of the General Appropriations Act, the Chancellor will issue detailed instructions regarding the implementation of those regulations and directives into the institutional budget process.

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

Salary Guidelines - Recommendations regarding salary policy are subject to the following directives:

1. **Salaries Proportional by Fund** - Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in *Texas Education Code* Section 51.009 (a) and (c), shall be proportional to the source of funds.
2. **Merit Increases and Promotions** - Subject to available resources and resolution of any major salary inequities, institutions should give priority to implementing merit salary increases for faculty and staff.

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

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

To be eligible for a merit increase, administrative and professional staff and classified staff must have been employed by the institution for at least six

consecutive months ending August 31, 2009, and at least six months must have elapsed since the employee's last merit salary increase.

3. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments should also consider merit where appropriate, subject to available resources. Subject to guidance issued by the Chancellor, such increases should be noted and explained in the supplemental data accompanying the budget.
4. New Positions - Subject to available resources, new administrative and professional staff, classified staff, and faculty positions are to be requested only when justified by workloads or to meet needs for developing new programs.
5. Reporting - The Chancellor will issue guidance on reporting of salary changes and amounts. It is expected that required reports will encompass high-ranking staff covered by Regents' Rules 20203 and 20204 along with those staff receiving significant changes in compensation.

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

Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' Compensation Insurance rates are experience-rated for each institution. Appropriate instructions will be issued regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.

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

Budget Reductions and Limitations - The General Appropriations Act may contain provisions requiring budget reductions and budget restrictions. Upon approval of this legislation, instructions will be issued regarding the implementation of any reductions and limitations into the budgeting process.

BACKGROUND INFORMATION

The U. T. System FY 2010 Budget Preparation Policies will be consistent with the regulations and directives included in the General Appropriations Act to be enacted by the 81st Texas Legislature. As written, this policy provides general direction to the U. T. System institutions and may be modified as necessary to conform to the legislation, as finally passed.



**THE UNIVERSITY OF TEXAS SYSTEM
FY 2010 OPERATING BUDGET CALENDAR**

May 14, 2009	U. T. System Board of Regents takes appropriate action on budget preparation policies
June 1 - 12, 2009	Major goals, priorities, and resource allocation hearings with U. T. System Administration
June 29, 2009	Draft budget documents due to U. T. System
June 29, 2009	High-ranking staff covered by Regent's Rules 20203 and 20204 and top-ten salary reports due to U. T. System
July 2 - 8, 2009	Technical budget review with U. T. System
July 8 - 9, 2009	U. T. System Board of Regents' Special Compensation Committee to evaluate Presidents and Executive Officers
July 15, 2009	Final budget documents due to U. T. System
July 31, 2009	Operating Budget Summaries mailed to the U. T. System Board of Regents
August 14, 2009	Salary change report due to U. T. System Administration
August 20, 2009	U. T. System Board of Regents takes appropriate action on Operating Budget

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

RECOMMENDATION

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

- a. adopt an Amended and Restated Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Permanent University Fund (PUF) Bonds in one or more installments in an aggregate principal amount not to exceed \$500 million to be used to refund certain outstanding PUF Bonds, to refund all or a portion of the then outstanding PUF Flexible Rate Notes, Series A, to refund PUF Commercial Paper Notes, to provide new money to fund construction and acquisition costs and to pay the costs of issuance; and
- b. authorize appropriate officers and employees of U. T. System as set forth in the Resolution to take any and all actions necessary to carry out the intentions of the U. T. System Board of Regents within the limitations and procedures specified therein; to make certain covenants and agreements in connection therewith; and to resolve other matters incident and related to the issuance, sale, security, and delivery of such bonds.

BACKGROUND INFORMATION

On August 14, 2008, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds during Fiscal Year 2009 in an amount not to exceed \$450 million. The majority of this authority was utilized with the issuance of \$400.9 million PUF Bonds, Series 2008A, that were issued on October 30, 2008. The Series 2008A Bonds were issued for the purpose of refunding all of the Board's outstanding PUF Flexible Rate Notes, Series A.

On November 13, 2008, the Board of Regents adopted a resolution authorizing the issuance of PUF Bonds during the remainder of Fiscal Year 2009 in an amount not to exceed \$500 million. Adoption of this Resolution would amend and restate the resolution approved by the Board of Regents in November, but would provide the same authorized amount and purposes as the prior resolution with the added flexibility to issue a portion of the bonds as taxable bonds and to designate such bonds as Build America Bonds.

The American Recovery and Reinvestment Act of 2009 made a significant change to federal tax law by providing municipal issuers with a new financing alternative known as Build America Bonds. Governmental issuers may elect to issue any bond otherwise

eligible for carrying tax-exempt interest as a taxable bond, termed Build America Bonds, which entitles the bondholder to receive a federal income tax credit equal to 35 percent of each interest payment. Alternatively, an issuer may elect to have such tax credit refunded from the United States Treasury to the issuer rather than refunded to the bondholder. Depending on the relationship between taxable and tax-exempt interest rates, issuing all or a portion of a financing as taxable Build America Bonds, with the accompanying refundable 35 percent tax credit, may achieve a lower net effective interest cost than issuing entirely traditional tax-exempt bonds.

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

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

Note: The proposed resolution is available online at <http://www.utsystem.edu/bor/AgendaBook/May09/5-09Vol2AB.htm>.

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

RECOMMENDATION

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

- a. adopt a Supplemental Resolution, substantially in the form previously approved by the U. T. System Board of Regents, authorizing the issuance, sale, and delivery of Board of Regents of The University of Texas System Revenue Financing System (RFS) Bonds in one or more installments in an aggregate principal amount not to exceed \$700 million to be used to refund certain outstanding RFS Bonds, to refund RFS Commercial Paper Notes, to provide new money to fund construction and acquisition costs of projects

in the Capital Improvement Program (CIP) and to pay the costs of issuance; and

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

BACKGROUND INFORMATION

On August 14, 2008, the Board of Regents adopted a resolution authorizing the issuance of RFS Bonds during Fiscal Year 2009 in an amount not to exceed \$800 million. A portion of this authority was utilized with the issuance of \$256.7 million RFS Bonds, Series 2008A, that were issued on January 6, 2009. The Series 2008A Bonds were issued for the purpose of refunding a portion of the Board's outstanding RFS Commercial Paper Notes, Series A.

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

The American Recovery and Reinvestment Act of 2009 made a significant change to federal tax law by providing municipal issuers with a new financing alternative known as Build America Bonds. Governmental issuers may elect to issue any bond otherwise eligible for carrying tax exempt interest as a taxable bond, termed Build America Bonds, which entitles the bondholder to receive a federal income tax credit equal to 35 percent of each interest payment. Alternatively, an issuer may elect to have such tax credit refunded from the United States Treasury to the issuer rather than refunded to the bondholder. Depending on the relationship between taxable and tax-exempt interest rates, issuing all or a portion of a financing as taxable Build America Bonds, with the accompanying refundable 35 percent tax credit, may achieve a lower net effective interest cost than issuing entirely traditional tax-exempt bonds.

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

to cause the allowable credit to be refunded to U. T. System in the event that all or a portion of the proposed financing is issued as taxable Build America Bonds.

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

Note: The proposed resolution is available online at <http://www.utsystem.edu/bor/AgendaBook/May09/5-09Vol2AB.htm>

6. U. T. System Board of Regents: Approval of annual distributions from the Permanent University Fund, the Permanent Health Fund, the Long Term Fund, and the Intermediate Term Fund

RECOMMENDATION

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

- a. the Fiscal Year 2010 distribution from the Permanent University Fund (PUF) to the Available University Fund (AUF) be decreased by 2.7% from \$530,932,622 to \$516,419,406 effective September 1, 2009. The distribution is an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF. The decrease in the distribution is a result of the distribution amount being calculated using 4.75% instead of 5.0% since the average annual rate of return of the PUF investments over the trailing 12 quarters did not exceed the Expected Return by 25 basis points or more. The Fiscal Year 2009 distribution amount of \$530,932,622 was based on 5.0%;
- b. the distribution rate for the Permanent Health Fund (PHF) be increased from \$0.0528 per unit to \$0.0541 per unit for Fiscal Year 2010 (effective with November 30, 2009 distribution);
- c. the distribution rate for the U. T. System Long Term Fund (LTF) be increased from \$0.3024 per unit to \$0.3098 per unit for Fiscal Year 2010 (effective with November 30, 2009 distribution); and
- d. the distribution rate for the U. T. System Intermediate Term Fund (ITF) remain at 3.0% per annum (paid monthly) for Fiscal Year 2010.

BACKGROUND INFORMATION

The PUF Investment Policy states that the annual distribution from the PUF to the AUF shall be an amount equal to 4.75% of the trailing 12-quarter average of the net asset value of the PUF for the quarter ending February of each fiscal year unless the average

annual rate of return of the PUF investments over the trailing 12 quarters exceeds the Expected Return by 25 basis points or more, in which case the distribution shall be 5.0% of the trailing 12-quarter average. "Expected Return" is the Expected Annual Return or Benchmarks set out in Exhibit A to the PUF Investment Policy Statement.

As shown in the table below, the average annual return of the PUF investments for the trailing 12 quarters ending February 28, 2009, has not exceeded the Expected Return by 25 basis points or more (.25%).

	<u>Trailing 12 Quarters Ending February 28, 2009</u>	<u>Expected or Benchmarks</u>	<u>Excess (Deficit)</u>
Average Annual Rate of Return	-5.31%	8.78%	-14.09%

Therefore, as outlined in the PUF Investment Policy, the amount to be distributed from the PUF for Fiscal Year 2009-2010 is \$516,419,406 as calculated below:

<u>Quarter Ended</u>	<u>Net Asset Value</u>
5/31/2006	10,028,861,545
8/31/2006	10,313,393,571
11/30/2006	10,760,220,191
2/28/2007	11,058,603,363
5/31/2007	11,763,605,335
8/31/2007	11,742,780,402
11/30/2007	12,160,738,716
2/29/2008	11,905,770,605
5/31/2008	12,245,951,162
8/31/2008	11,359,463,077
11/30/2008	8,837,574,480
2/28/2009	<u>8,286,887,451</u>
	\$ 130,463,849,898
Number of quarters	<u>12</u>
Average Net Asset Value	\$ 10,871,987,492
Distribution Percentage	<u>4.75%</u>
FYE 2009-2010 Distribution	<u>\$ 516,419,406</u>

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

1. The amount of PUF distributions to the AUF in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on PUF bonds and notes. The proposed distribution of \$516,419,406 is substantially greater than PUF Bonds Debt Service of \$161,591,411 projected for FYE 2009-2010.

<u>System</u>	<u>Debt Service</u>
U. T.	\$ 105,231,411
TAMU	<u>56,360,000</u>
Total	\$ 161,591,411

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

2. The U. T. Board may not increase annual PUF distributions to the AUF (except as necessary to pay PUF bond debt service) if the purchasing power of PUF investments for any rolling 10-year period has not been preserved. As the schedule below indicates, the average annual net real return rate of growth of the value of PUF investments (net of expenses, inflation, and distributions) for the trailing 10-year period ended February 28, 2009, was a negative 1.30%, which indicates that the purchasing power has not been preserved. However, since the calculated distribution amount for FYE 2009-2010 of \$516,419,406 is less than the prior year distribution of \$530,932,622, the recommended distribution is within the guidelines established by the Constitution.

<u>Average Annual</u>	<u>Percent</u>
Rate of Total Return	3.88%
Mineral Interest Receipts	2.07%
Expense Rate	(0.27)% ⁽¹⁾
Inflation Rate	(2.58)%
Distribution Rate	<u>(4.40)%</u>
Net Real Return	<u>(1.30)%</u>

(1) The expense rate as shown is a 10-year annualized average and includes all PUF Investment and PUF Land expenses, including the UTIMCO management fee, paid directly by the PUF. Prior to November 29, 1999, expenses related to PUF Investments and PUF Lands were paid from the AUF. Management fees that are netted from asset valuations and are not paid directly by the PUF are not included, as they are a reduction to the Rate of Total Return.

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

<u>Value of PUF Investments ⁽¹⁾</u>	<u>Proposed Distribution</u>	<u>Proposed Distribution as a % of Value of PUF Investments</u>	<u>Maximum Allowed Rate</u>
\$10,871,987,492	\$516,419,406	4.75%	7.00%

(1) Source: UTIMCO

The spending policy objectives of the PHF and LTF are to

- a. provide a predictable stable stream of distributions over time;
- b. ensure that the inflation-adjusted value of the distributions is maintained over the long term; and
- c. ensure that the inflation-adjusted value of the assets of the PHF and the LTF, as appropriate after distributions, is maintained over the long term.

The spending formula under the PHF Investment Policy Statement and the LTF Investment Policy Statement increases distributions at the rate of inflation subject to a distribution range of 3.5% to 5.5% of the average market value of the PHF assets and LTF assets for each fund's respective trailing 12 fiscal quarters. Subject to constitutional and statutory limitations, the U. T. System Board of Regents has full authority to set distribution rates.

The recommended 2.4% increase in the PHF distribution rate of \$0.0528 to \$0.0541 per unit is based on the PHF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters. The PHF's distribution rate calculated using the prior 12-quarter average value of the PHF is 4.3%, within the range of 3.5% to 5.5% set forth in the PHF Investment Policy Statement.

The recommended 2.4% increase in the LTF distribution rate from \$0.3024 to \$0.3098 per unit was based on the LTF's Investment Policy Statement to increase the distributions by the average rate of inflation for the trailing 12 quarters. The LTF's distribution rate calculated using the prior 12-quarter average value of the LTF is 4.4%, within the range of 3.5% to 5.5% set forth in the LTF Investment Policy Statement. The increase in the consumer price index for the prior three years as of November 30, 2008, was 2.4%.

The distribution rate for the ITF was set at 3.0% per annum for Fiscal Year 2007 by the UTIMCO Board and the U. T. System Board of Regents on March 30, 2006, and May 11, 2006, respectively.

7. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the quarter ended February 28, 2009**

REPORT

The February 28, 2009 UTIMCO Performance Summary Report is attached on Page 36.

The Investment Reports for the fiscal quarter ended February 28, 2009, are set forth on Pages 37 - 40.

Item I on Page 37 reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the quarter was (5.53%) and (26.94%) for the first half of the fiscal year versus its composite benchmark return of (6.49%) and (28.66%), respectively. The PUF's net asset value decreased by \$551 million since the beginning of the quarter to \$8,287 million. This change in net asset value includes increases due to contributions from PUF land receipts, decreases due to net investment return, and the second payment of the annual distribution to the Available University Fund (AUF) of \$133 million.

Item II on Page 38 reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the quarter was (5.57%) and (27.11%) for the first half of the fiscal year versus its composite benchmark return of (6.49%) and (28.66%), respectively. The GEF's net asset value decreased during the quarter to \$4,557 million.

Item III on Page 39 reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the quarter was (4.15%) and (24.93%) for the first half of the fiscal year versus its composite benchmark return of (6.10%) and (26.94%), respectively. The net asset value has decreased to \$2,927 million due to net investment return of (\$124 million) and net distributions of \$23 million. The decrease in net asset value was offset by \$63 million net contributions.

For the PUF and GEF, Private Investments were above the maximum range. For the GEF, the More Correlated and Constrained Investment Type was below the minimum range. For the PUF, the Investment Grade Fixed Income Asset Class was above the maximum range. The ITF was within all of its investment type and asset class ranges. All of the funds' liquidity was within policy.

Item IV on Page 40 presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus money market fund, increased by \$80 million to \$1,672 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$27 million versus \$24 million at the beginning of the period; equities: \$33 million versus \$46 million at the beginning of the period; and other investments: \$.9 million versus \$1 million at the beginning of the period.

UTIMCO Performance Summary

February 28, 2009

	Net Asset Value 2/28/2009 (in Millions)	Periods Ended February 28, 2009 (Returns for Periods Longer Than One Year are Annualized)									
		Short Term		Year to Date		Historic Returns					
		1 Mo	3 Mos	Calendar	Fiscal	1 Yr	3 Yrs	5 Yrs	10 Yrs		
ENDOWMENT FUNDS											
Permanent University Fund	\$ 8,287	(4.47)	(5.53)	(6.57)	(26.94)	(30.64)	(5.31)	1.34	3.67		
General Endowment Fund		(4.51)	(5.57)	(6.59)	(27.11)	(30.74)	(5.14)	1.42	N/A		
Permanent Health Fund	727	(4.53)	(5.57)	(6.56)	(27.06)	(30.74)	(5.18)	1.36	N/A		
Long Term Fund	3,830	(4.54)	(5.57)	(6.56)	(27.06)	(30.74)	(5.18)	1.36	4.41		
Separately Invested Funds	125	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Total Endowment Funds	12,969										
OPERATING FUNDS											
Short Term Fund	1,608	0.08	0.31	0.19	0.94	2.44	4.28	3.58	3.62		
Intermediate Term Fund	2,927	(4.22)	(4.15)	(7.18)	(24.93)	(28.05)	(5.13)	N/A	N/A		
Total Operating Funds	4,535										
Total Investments	\$ 17,504										
VALUE ADDED											
Permanent University Fund		(0.03)	0.96	1.31	1.72	2.52	1.89	1.08	1.00		
General Endowment Fund		(0.07)	0.92	1.29	1.55	2.42	2.06	1.16	N/A		
Short Term Fund		0.06	0.29	0.18	0.41	1.03	0.53	0.36	0.23		
Intermediate Term Fund		0.95	1.95	2.15	2.01	3.09	2.68	N/A	N/A		
VALUE ADDED (\$ IN MILLIONS)											
Permanent University Fund		(3)	84	116	194	299	484	427	N/A		
General Endowment Fund		(3)	45	64	99	162	295	257	N/A		
Intermediate Term Fund		29	59	68	78	124	234	N/A	N/A		

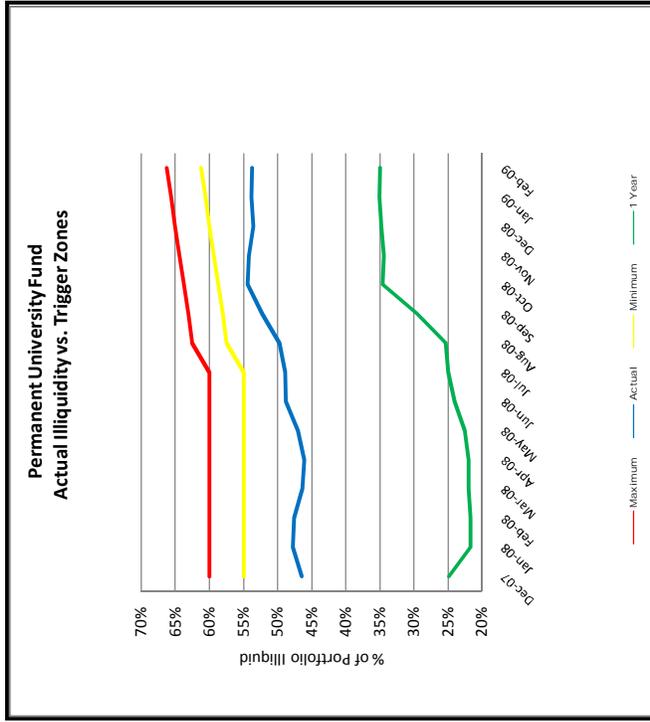
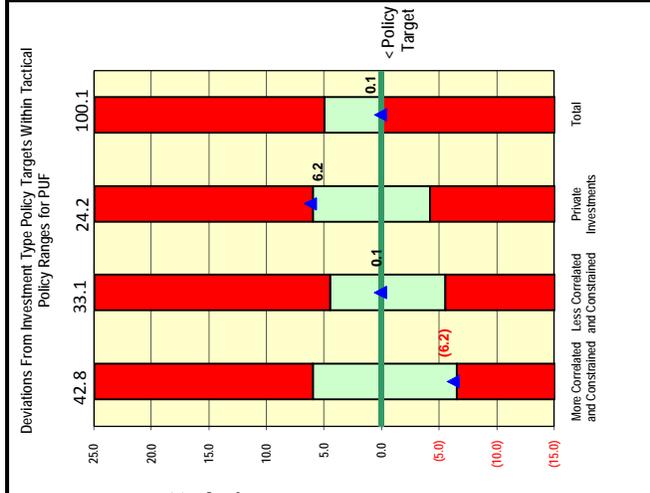
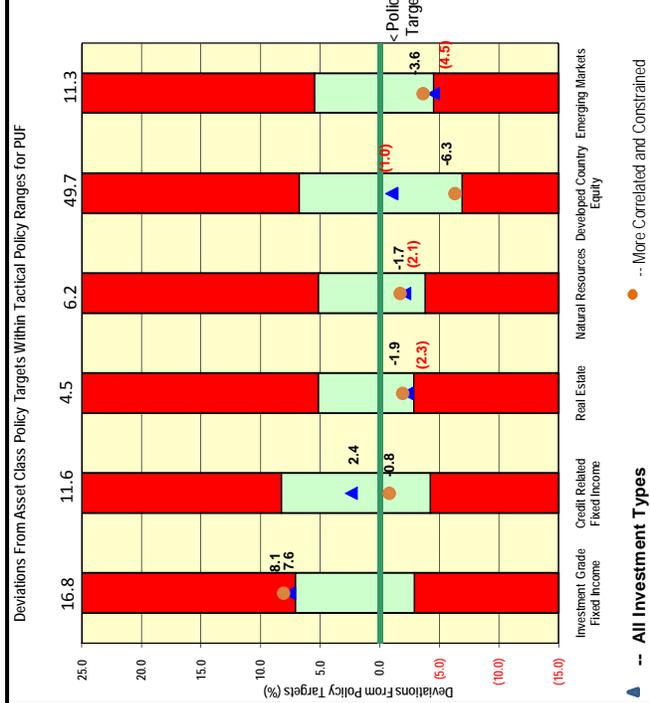
Footnotes available upon request.

I. PERMANENT UNIVERSITY FUND Investment Reports for Periods Ended February 28, 2009

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
	Fiscal Year Ended August 31, 2008	Quarter Ended February 28, 2009	Fiscal Year Ended August 31, 2009
Beginning Net Assets (\$ millions)	\$ 11,742.8	\$ 8,837.6	\$ 11,359.5
PUF Lands Receipts	457.7	66.4	235.1
Investment Return	(339.5)	(476.4)	(3,027.1)
Expenses	(52.6)	(7.9)	(15.1)
Distributions to AUF	(448.9)	(132.8)	(265.5)
Ending Net Assets	\$ 11,359.5	\$ 8,286.9	\$ 8,286.9

	Fiscal Year to Date		
	Returns	Value Added	Total
More Correlated and Constrained:			
Investment Grade	-6.17%	0.85%	0.62%
Credit-Related	-11.41%	-0.23%	-0.06%
Real Estate	-54.82%	0.23%	0.28%
Natural Resources	-50.58%	0.16%	-0.38%
Developed Country	-42.75%	0.83%	1.00%
Emerging Markets	-50.29%	0.63%	0.20%
Total More Correlated and Constrained	-37.87%	2.47%	-0.64%
Less Correlated and Constrained	-15.53%	-0.03%	1.11%
Private Investments	-17.52%	0.41%	-1.19%
Total	-26.94%	2.85%	-1.13%



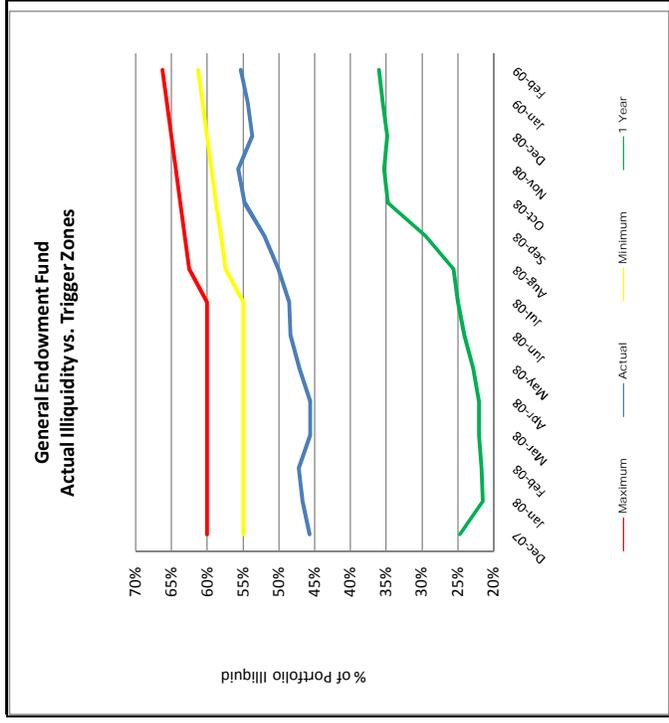
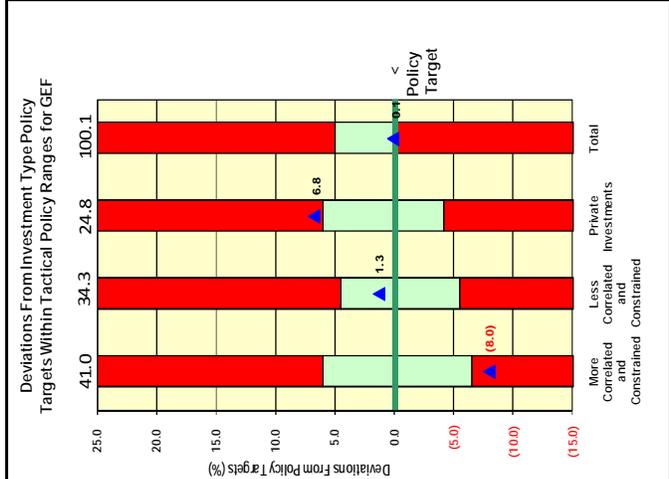
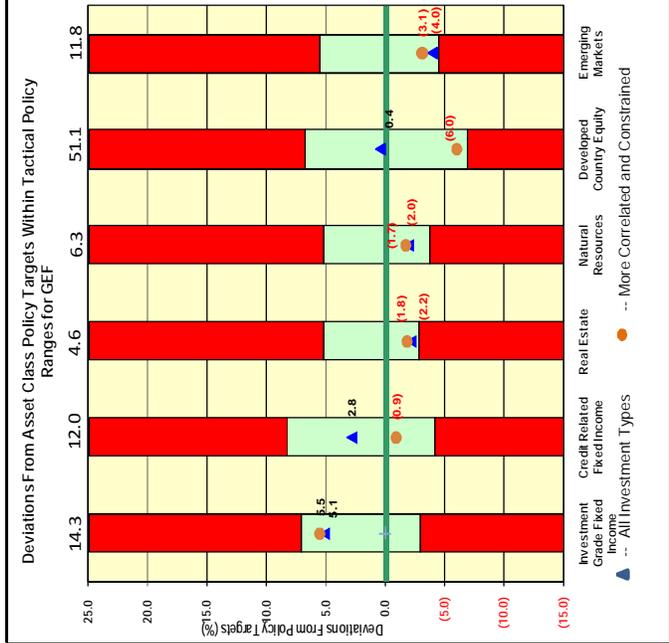
II. GENERAL ENDOWMENT FUND

Investment Reports for Periods Ended February 28, 2009

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
Fiscal Year Ended	Quarter Ended	Fiscal Year Ended	Fiscal Year Ended
August 31, 2008	February 28, 2009	August 31, 2009	August 31, 2009
Beginning Net Assets	\$ 6,433.1	\$ 4,846.4	\$ 6,310.4
Contributions	358.6	52.5	104.8
Withdrawals	(20.2)	(1.0)	(2.2)
Distributions	(259.0)	(69.5)	(138.3)
Investment Return	(180.8)	(269.1)	(1,713.3)
Expenses	(21.3)	(2.2)	(4.3)
Ending Net Assets	\$ 6,310.4	\$ 4,557.1	\$ 4,557.1

	Fiscal Year to Date			
	Returns	Value Added		
Portfolio	Policy Benchmark	From Asset Allocation	From Security Selection	Total
More Correlated and Constrained:				
Investment Grade	-5.94%	0.72%	-0.22%	0.50%
Credit-Related	-11.46%	-0.23%	0.18%	-0.05%
Real Estate	-54.91%	0.19%	0.03%	0.22%
Natural Resources	-49.94%	0.15%	-0.33%	-0.18%
Developed Country	-42.99%	0.82%	0.11%	0.93%
Emerging Markets	-50.27%	0.61%	-0.44%	0.17%
Total More Correlated and Constrained	-38.38%	2.26%	-0.67%	1.59%
Less Correlated and Constrained				
Private Investments	-17.49%	0.42%	-1.58%	-1.16%
Total	-27.11%	2.68%	-1.13%	1.55%

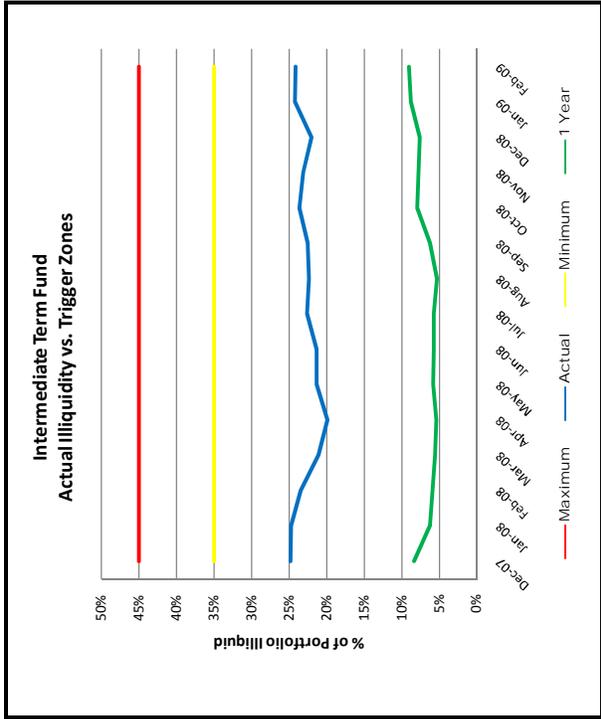
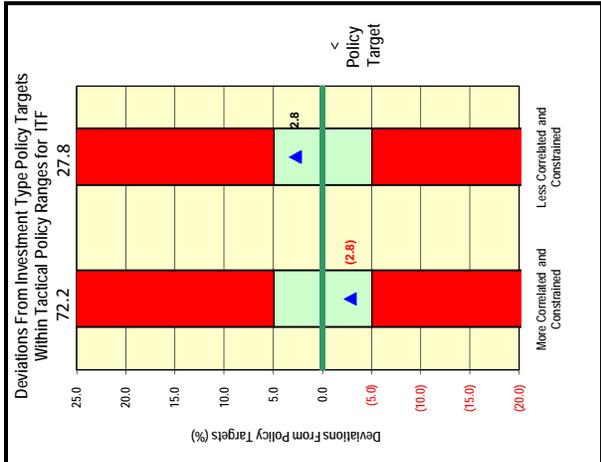
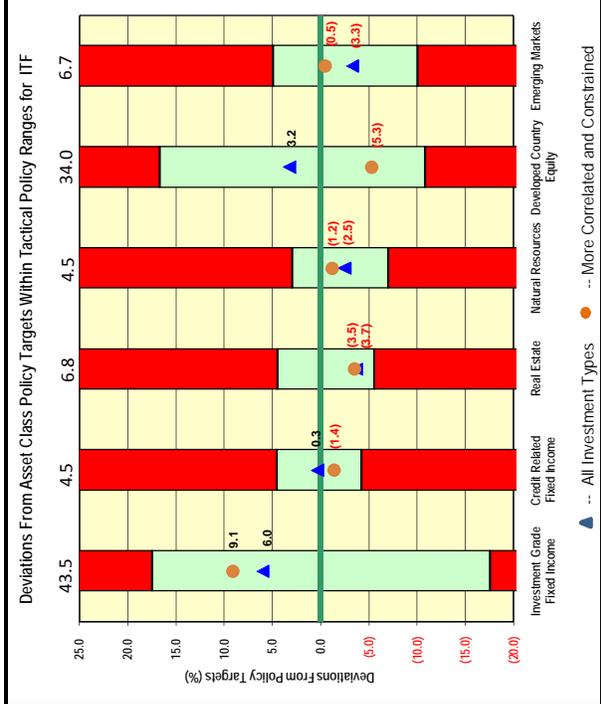


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended February 28, 2009

Prepared in accordance with Texas Education Code Sec. 51.0032

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2008	Quarter Ended February 28, 2009	Fiscal Year Ended August 31, 2009
	Beginning Net Assets	\$ 3,720.6	\$ 3,010.5
Contributions	1,639.1	65.9	215.6
Withdrawals	(1,335.3)	(2.7)	(144.8)
Distributions	(118.6)	(23.0)	(49.6)
Investment Return	(7.5)	(120.0)	(962.3)
Expenses	(23.5)	(3.7)	(6.7)
Ending Net Assets	\$ 3,874.8	\$ 2,927.0	\$ 2,927.0

	Fiscal Year to Date		
	Returns		Value Added
	Portfolio	Policy Benchmark	From Asset Allocation From Security Selection
More Correlated and Constrained:			
Investment Grade	-6.47%	-2.80%	0.87%
Credit-Related	-12.15%	-23.60%	-0.30%
Real Estate	-54.65%	-55.35%	0.28%
Natural Resources	-47.43%	-44.80%	0.09%
Developed Country	-40.87%	-43.55%	0.34%
Emerging Markets	-50.43%	-47.28%	0.17%
Total More Correlated and Constrained	-28.08%	-29.46%	-0.41%
Less Correlated and Constrained	-15.53%	-19.40%	1.19%
Private Investments	0.00%	0.00%	0.00%
Total	-24.93%	-26.94%	1.23%
			0.78%
			2.01%



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at February 28, 2009
 Report prepared in accordance with Texas Education Code Sec. 51.0032

ASSET TYPES	FUND TYPE																					
	CURRENT PURPOSE DESIGNATED			RESTRICTED			ENDOWMENT & SIMILAR FUNDS			ANNUITY & LIFE INCOME FUNDS			AGENCY FUNDS			TOTAL EXCLUDING OPERATING FUNDS (SHORT TERM FUND)			TOTAL			
	BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		BOOK	MARKET		
Cash & Equivalents:																						
Beginning value 11/30/08	53	2,326	2,326	51,523	51,523	1,588	1,588	1,588	1,588	3,696	3,696	59,186	59,186	1,532,996	1,532,996	1,592,182	1,592,182					
Increase/(Decrease)	(47)	(215)	(215)	3,154	3,154	265	265	265	265	2,147	2,147	5,304	5,304	74,642	74,642	79,946	79,946					
Ending value 02/28/09	6	2,111	2,111	54,677	54,677	1,853	1,853	1,853	1,853	5,843	5,843	64,490	64,490	1,607,638	1,607,638	1,672,128	1,672,128					
Debt Securities:																						
Beginning value 11/30/08	-	-	265	11,904	12,372	11,456	11,377	11,456	11,377	-	-	23,625	24,017	-	-	23,625	24,017					
Increase/(Decrease)	-	-	1	(548)	(425)	4,368	3,725	4,368	3,725	-	-	3,820	3,301	-	-	3,820	3,301					
Ending value 02/28/09	-	-	265	11,356	11,947	15,824	15,102	15,824	15,102	-	-	27,445	27,318	-	-	27,445	27,318					
Equity Securities:																						
Beginning value 11/30/08	17	6,522	469	30,382	22,689	24,369	15,844	24,369	15,844	-	-	55,297	45,524	-	-	55,297	45,524					
Increase/(Decrease)	-	(3,034)	(66)	(2,122)	(4,448)	(5,360)	(5,377)	(5,360)	(5,377)	-	-	(7,548)	(12,910)	-	-	(7,548)	(12,910)					
Ending value 02/28/09	17	3,488	403	28,260	18,241	19,009	10,467	19,009	10,467	-	-	47,749	32,614	-	-	47,749	32,614					
Other:																						
Beginning value 11/30/08	-	-	834	9	9	321	130	321	130	265	265	1,429	1,238	-	-	1,429	1,238					
Increase/(Decrease)	-	-	(464)	(1)	(1)	16	4	16	4	172	172	(277)	(289)	-	-	(277)	(289)					
Ending value 02/28/09	-	-	370	8	8	337	134	337	134	437	437	1,152	949	-	-	1,152	949					
Total Assets:																						
Beginning value 11/30/08	70	6,575	3,954	93,818	86,593	37,734	28,939	37,734	28,939	3,961	3,961	139,537	129,965	1,532,996	1,532,996	1,672,533	1,662,961					
Increase/(Decrease)	(47)	(3,081)	(745)	483	(1,720)	(711)	(1,383)	(711)	(1,383)	2,319	2,319	1,299	(4,594)	74,642	74,642	75,941	70,048					
Ending value 02/28/09	23	3,494	3,209	94,301	84,873	37,023	27,556	37,023	27,556	6,280	6,280	140,836	125,371	1,607,638	1,607,638	1,748,474	1,733,009					

Details of individual assets by account furnished upon request.

8. **U. T. System: Discussion with representative chief business officers of U. T. System health institutions regarding the business challenges and opportunities of partnership contracts and relationships**

PURPOSE

Executive Vice Chancellor Kelley; Mr. Kevin Dillon, Executive Vice President, Chief Operating and Financial Officer at U. T. Health Science Center – Houston; and Mr. John Roan, Executive Vice President for Business Affairs at U. T. Southwestern Medical Center – Dallas, will lead a discussion regarding the business challenges and opportunities of partnership contracts and relationships that may be present for all U. T. System health institutions in these difficult economic times.