CONVENE THE BOARD IN OPEN SESSION TO CONSIDER AGENDA ITEMS  

<table>
<thead>
<tr>
<th>Time</th>
<th>Item</th>
<th>Report/Discussion</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>10:00 a.m.</td>
<td><strong>U. T. System:</strong> Report and discussion of debt programs and debt capacity</td>
<td>Dr. Kelley, Mr. Wallace</td>
<td></td>
</tr>
<tr>
<td>10:05 a.m.</td>
<td><strong>U. T. Southwestern Medical Center:</strong> Discussion and appropriate action regarding a) authorization to enter into and operate a nonprofit corporate entity with Texas Health Resources for the development of a medical office building, hospital, and parking garage on the east side of the Dallas North Tollway north of Eldorado Parkway in Frisco, Collin County, Texas, and for the operation thereof for clinical use; b) allocation and authorization of expenditure of up to $139.7 million of institutional funds for U. T. Southwestern Medical Center’s portion of the total project cost; c) delegation of authority to the President to execute related documents and take other action necessary; d) authorization to purchase approximately 1.2 acres of property improved with an approximately 120,000-square-foot medical office building at the completion of its construction; e) allocation and authorization of expenditure of institutional funds for the purchase of the approximately 1.2 acres of property that will be based on an actual fair market value appraisal expected to be approximately $1.2 million and of up to $50 million of Revenue Financing System Bond Proceeds to purchase the medical office building; f) delegation of authority to the Executive Director of Real Estate to execute related documents and take other necessary action; g) resolution regarding parity debt; and finding of public purpose</td>
<td>President Podolsky, Dr. Greenberg</td>
<td></td>
</tr>
<tr>
<td>10:35 a.m.</td>
<td><strong>RECESS TO EXECUTIVE SESSION PURSUANT TO TEXAS GOVERNMENT CODE, CHAPTER 551 (Working lunch at noon)</strong></td>
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</tbody>
</table>

1. **Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, or Duties of Officers or Employees – Section 551.074**

   **U. T. System:** Discussion and appropriate action regarding individual personnel matters relating to appointment, employment, evaluation, compensation, assignment, and duties of presidents (academic and health institutions), U. T. System Administration officers (Deputy Chancellor, Executive Vice Chancellors, and Vice Chancellors), other officers reporting directly to the Board (Chancellor, General Counsel to the Board, and Chief Audit Executive), members of the Board of Regents, and U. T. System and institutional employees

2. **Consultation with Attorney Regarding Legal Matters or Pending and/or Contemplated Litigation or Settlement Offers – Section 551.071**

   a. **U. T. System Board of Regents:** Discussion with Counsel on pending legal issues
b. U. T. System Board of Regents: Discussion and appropriate action regarding legal issues concerning permissible expenditure of Available University Funds (AUF) and Permanent University Funds (PUF)

RECONVENE IN OPEN SESSION TO CONSIDER ACTION, IF ANY, ON EXECUTIVE SESSION ITEMS AND TO CONSIDER AGENDA ITEMS

3. U. T. System: Discussion and possible appropriate action regarding Available University Fund (AUF) expenditures, budget issues, and funding sources


ADJOURN
1. **U. T. System: Report and discussion of debt programs and debt capacity**

**REPORT**

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will report on U. T. System debt programs and debt capacity using the PowerPoint on the following pages.
THE UNIVERSITY OF TEXAS SYSTEM

RFS Debt Capacity Discussion

Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents’ Meeting
June 28, 2017
U. T. System Debt Programs

- All U. T. System debt is issued in the name of the Board of Regents and is issued centrally on behalf of the fourteen U. T. System institutions through two primary financing programs:
  - Revenue Financing System (RFS) secured by a Systemwide pledge of all legally available revenues.
  - Permanent University Fund (PUF) secured by distributions from the PUF to the Available University Fund (AUF).

- The U. T. System was the first, and is now one of a select few public universities, to be rated Aaa/AAA/AAA by Moody’s Investors Service, Standard and Poor’s and Fitch Ratings, respectively.

The University of Texas System
Total Outstanding Debt
$10.1 billion

(1) As of May 31, 2017
RFS Credit Highlights

- Credit ratings: Highest ratings of Aaa, AAA, and AAA from Moody’s, S&P, and Fitch, respectively, supported by substantial real and financial assets and market-leading position in public higher education

- Balance sheet: Largest collection of endowment assets of any public institution with investment pool of $40.3 billion as of May 31, 2017

- Strong brand identity with growing enrollment in a vibrant state

- Solid cash flow generation from a diversified revenue stream

- Leading educational and research enterprise with extensive financial resources

- Tremendous fund-raising ability with average annual giving in excess of $906 million annually over the last 5 years

- Affordable tuition and fee levels compared to peer institutions

- Strong management and fiscal stewardship (per rating agencies)

- Conservative debt structure with a declining debt service profile
Revenue Financing System Overview

- The U. T. System’s Revenue Financing System provides a single, cost-effective financing structure for revenue-supported indebtedness of U. T. System institutions.

- Under the Master Resolution, the Board of Regents has, with certain exceptions, combined all of the revenues, funds and balances lawfully available to secure revenue-supported indebtedness into a Systemwide pledge to secure the payment of RFS debt.

- 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 is absolute, irrevocable, complete and unconditional.

- The Master Resolution requires that before any RFS debt is issued, the Board of Regents make a determination that:
  - The Board will have sufficient “Pledged Revenues” to meet all financial obligations relating to the Revenue Financing System, and;
  - The Members (i.e., System institutions) on whose behalf the debt is issued possess the financial capacity to satisfy their direct obligations.
Revenue Financing System Overview (cont.)

- Revenue Financing System (RFS) debt is often issued for revenue-generating projects, such as student housing, parking facilities, and auxiliary projects.

- RFS debt capacity is largely determined by an institution's ability to meet at least two of three minimum debt ratio standards. For projects that are self-supporting (i.e., revenue-generating), a 1.3x project-level debt service coverage is generally required.

- Net revenue generated by the project (i.e. revenues less operating expenses) is typically used to pay debt service on debt issued to finance the project. The debt is typically structured to amortize over the useful life of the project so that all beneficiaries of the project share in the cost of financing the project.

- In general, academic institutions have limited additional RFS capacity with health-related institutions having generally more RFS debt capacity.

- Tuition revenue bond (TRB) projects are also financed under the Revenue Financing System. TRB debt is dilutive to the System’s debt coverage ratios as the state only reimburses actual TRB debt service (1.0x debt service coverage).
Over the last five years, aggregate RFS debt outstanding has grown by over $1.7 billion, from $5.7 billion to $7.4 billion currently outstanding, which includes $922 million of TRBs authorized by the Legislature in 2015.
Moody’s Texas Public University Ratings by Level

- Most Texas public colleges and universities are rated in the Aa category with only three Texas public colleges and universities rated A1 or below.

- As one of only a select few public universities in the US to be rated triple-A by the three major credit rating agencies, the System is able to access the capital markets with the most favorable terms and the lowest rates. The credit rating, however, restrains the amount of debt that can be outstanding.

<table>
<thead>
<tr>
<th>Moody’s Public College and University Ratings by Level (Texas Issuers)¹</th>
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</thead>
<tbody>
<tr>
<td><strong>Aaa</strong></td>
</tr>
<tr>
<td>University of Texas System</td>
</tr>
<tr>
<td>Texas A&amp;M System</td>
</tr>
</tbody>
</table>

| **Aa2** | **A2 - NA** |
| University of North Texas System | |
| University of Houston System | A3 - NA |
| Texas State University System | Baa1 - NA |

| **Aa3** | **Baa3** |
| Texas Woman's University | Texas Southern University (neg) |

While the goal of the System is to maintain the Aaa credit rating, the minimum credit standards to which U. T. institutions are held approximate an A credit rating (4-5 notches below Aaa standards).

The System’s overall credit ratios are bolstered by the System’s largest and strongest institutions.

| U.T. System Office of Finance Standards & Moody’s Higher-Education Medians¹ |
|----------------------------------|----|----|----|----|----|----|----|
|                                 | Aaa| Aa1| Aa2| Aa3| A1 | A2 | A3 |
| Expendable Resources-to-Debt (%) | 240| 177| 121| 107| 92 | 36 | 44 |
| Greater than or equal to 80%    |    |    |    |    |    |    | 80%|
| Debt Service-to-Operations (%)  | 3.6| 3.3| 4.1| 4.4| 4.9| 6.3| 4.2|
| Less than or equal to 5.0%      |    |    |    |    |    |    | 5% |
| Debt Service Coverage (x)       | 3.29| 4.21| 2.41| 2.58| 2.27| 1.94| 1.50|
| Greater than or equal 1.8x      |    |    |    |    |    |    | 1.8x|

RFS Debt Capacity

- In order to maintain the System’s credit rating, U. T. institutions are required to meet minimum credit standards. The Office of Finance primarily utilizes a quantitative approach by using three financial ratios commonly used by the credit rating agencies in determining an institution’s debt capacity:
  - Debt service coverage ratio of at least 1.8x;
  - Debt service-to-operations ratio not greater than 5.0%; and
  - Expendable resources-to-debt ratio of at least 0.8x.

- Debt capacity is not purely quantitative in nature as non-quantitative aspects of the institution are also taken into consideration when determining debt capacity.

- The current debt capacity status\(^1\) of U. T. institutions for non-self-supporting projects is:

<table>
<thead>
<tr>
<th>Additional Debt Capacity</th>
<th>Constrained Capacity</th>
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<tbody>
<tr>
<td>U. T. Arlington</td>
<td>U. T. Dallas</td>
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<tr>
<td>U. T. Austin</td>
<td>U. T. El Paso</td>
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<tr>
<td>All U. T. Health Institutions</td>
<td>U. T. Permian Basin</td>
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<td></td>
<td>U. T. Rio Grande Valley</td>
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<td></td>
<td>U. T. San Antonio</td>
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<tr>
<td></td>
<td>U. T. Tyler</td>
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</tbody>
</table>

- Although capacity is somewhat constrained for the System based on current levels of debt, there is a natural increase in debt capacity over time as debt is paid down, as operating levels increase, and as the balance sheet increases.

\(^1\)Reflects whether the institution generally meets or exceeds two of the three minimum credit ratios based on each institution’s six-year forecast. Does not reflect debt capacity associated with self-supporting projects.
2. **U. T. Southwestern Medical Center: Discussion and appropriate action**

regarding a) authorization to enter into and operate a nonprofit corporate entity
with Texas Health Resources for the development of a medical office building, hospital, and parking garage on the east side of the Dallas North Tollway north of Eldorado Parkway in Frisco, Collin County, Texas, and for the operation thereof for clinical use; b) allocation and authorization of expenditure of up to $139.7 million of institutional funds for U. T. Southwestern Medical Center’s portion of the total project cost; c) delegation of authority to the President to execute related documents and take other action necessary; d) authorization to purchase approximately 1.2 acres of property improved with an approximately 120,000-square-foot medical office building at the completion of its construction; e) allocation and authorization of expenditure of institutional funds for the purchase of the approximately 1.2 acres of property that will be based on an actual fair market value appraisal expected to be approximately $1.2 million and of up to $50 million of Revenue Financing System Bond Proceeds to purchase the medical office building; f) delegation of authority to the Executive Director of Real Estate to execute related documents and take other necessary action; g) resolution regarding parity debt; and finding of public purpose

**RECOMMENDATION**

The Chancellor concurs in the recommendation of the Deputy Chancellor, the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor and General Counsel, and the institutional president that the U. T. System Board of Regents

a. authorize U. T. Southwestern Medical Center to enter into and operate a nonprofit corporate entity with Texas Health Resources, a Texas nonprofit corporation, and/or its affiliate, for the development of a medical office building, hospital, and parking garage on the east side of the Dallas North Tollway north of Eldorado Parkway in Frisco, Collin County, Texas, and for the operation thereof for clinical use;

b. authorize allocation and expenditure of up to $139.7 million from unrestricted institutional funds for U. T. Southwestern Medical Center’s portion of the total project cost (hospital, medical office building, garage and associated land), with the understanding that no state-appropriated funds or tuition revenues will be used;

c. delegate authority to the President of U. T. Southwestern Medical Center to execute all documents, instruments, and other agreements and to take all further actions deemed necessary to carry out the purpose and intent of the foregoing actions, following review and approval by the Executive Vice Chancellor for Health Affairs, the Executive Vice Chancellor for Business Affairs, and the Vice Chancellor and General Counsel;

d. authorize the purchase by the Board on behalf of U. T. Southwestern Medical Center of approximately 1.2 acres of property improved with an approximately 120,000-square-foot medical office building at the completion of its construction, the land at a price not to exceed fair market value as determined by independent appraisal and the building to be at a price based on the costs to develop and build the facility;
e. authorize allocation and expenditure of unrestricted institutional funds for the purchase of the approximately 1.2 acres of property described above in (d) that will be based on an actual fair market value appraisal expected to be approximately $1.2 million and of up to $50 million of Revenue Financing System (RFS) Bond Proceeds to purchase the medical office building, also described above in (d);

f. delegate authority to the Executive Director of Real Estate to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary or advisable to carry out the purpose and intent of the foregoing recommendations; and

g. resolve in accordance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System that parity debt shall be issued to pay the cost to purchase the medical office building, including any costs prior to the issuance of such parity debt; sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the U. T. System Board of Regents relating to the Financing System; and U. T. Southwestern Medical Center, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. System Board of Regents of tax-exempt parity debt in the aggregate amount of up to $50 million.

The Board is also asked to make a finding that the formation of the nonprofit for the development of a medical office building, hospital, and parking garage supports the public mission of and serves public purposes appropriate to the functions of U. T. Southwestern.

BACKGROUND INFORMATION

On October 2, 2015, the Board of Regents approved the formation of a health care network with Texas Health Resources (THR), a Texas nonprofit corporation, known as Southwestern Health Resources, to enable U. T. Southwestern Medical Center to enhance its abilities to serve its multiple public purposes and specifically to deliver high quality health care across the entire care continuum. The Board also approved allocation and expenditure of $63 million of unrestricted institutional funds over three years to support the new clinical health network.

The proposed formation of a new nonprofit for the development of a medical office building, hospital, and parking garage in Frisco, Texas, (the Frisco Transaction) will be an extension of the activities of Southwestern Health Resources. The Frisco Transaction will further support the public mission and serve the public purposes appropriate to the functions of U. T. Southwestern Medical Center by enhancing its ability to a) deliver and manage high quality health care to a larger population across the entire care continuum; b) provide its students, residents, and other trainees with expanded opportunities for exposure to all dimensions of care delivery necessary in the aggregate to care for an entire community; and c) perform patient-oriented clinical research, translational research, and health service research.
If approved by the Board, THR and U. T. Southwestern Medical Center will form and operate a separate, yet-to-be-named nonprofit corporate entity (the Nonprofit) for the purpose of developing a healthcare campus in Frisco (Frisco Medical Campus). THR's and U. T. Southwestern Medical Center's membership interests in the Nonprofit will be 51% and 49%, respectively. The joint effort will result in the construction of a hospital, medical office building, and parking garage on the Frisco Medical Campus. The Nonprofit will be subject to all proper and necessary safeguards and controls by U. T. Southwestern Medical Center to ensure its public purpose will continue to be met on an ongoing basis.

The Nonprofit will purchase the land currently owned by THR at an arms-length, fair market value for the construction of the hospital, medical office building, and parking garage. The fair market value of the land associated with the medical office building is currently estimated at $1.2 million. U. T. Southwestern Medical Center finds value and efficiencies in the purchase of this land associated with the medical office building because of its location and the preparatory site development efforts completed by THR.

The total cost of the building improvement and finish-out, equipment, working capital for the 140-bed acute care hospital and parking garage, and associated land is estimated to be $233.8 million. U. T. Southwestern Medical Center's portion of the total project cost for the hospital and parking garage is estimated at $114.6 million. U. T. Southwestern Medical Center will maintain a 49% interest in the hospital and parking garage through the Nonprofit.

In addition, the total project cost of the approximately 120,000-square-foot medical office building is estimated at $50 million for the building improvement and finish-out, plus $1.2 million for land. The $51.2 million will initially be funded jointly with THR in the same proportions as the hospital and parking garage. U. T. Southwestern Medical Center's portion of the initial funding of the medical office building and land is estimated to be $25.1 million. In total, U. T. Southwestern Medical Center will contribute $139.7 million for its portion of the total project cost to build the hospital, medical office building, and parking garage.

Upon the completion of construction, the Board on behalf of U. T. Southwestern Medical Center will purchase the medical office building from the Nonprofit at the cost of the land, building development and construction, and capitalized interest, which is currently estimated at $51.2 million. The purchase of the medical office building from the Nonprofit will then trigger a distribution from the Nonprofit to U. T. Southwestern Medical Center in an amount equal to U. T. Southwestern Medical Center’s initial funding of the building and land, estimated to be $25.1 million. Rights to use 343 parking spaces in the adjacent parking garage to serve the medical office building will be secured from the Nonprofit through a separate agreement. Finally, U. T. Southwestern Medical Center will procure $7.5 million of medical equipment for these clinical service areas following standard procurement requirements and after seeking approval from the Board at a future meeting. In summary, the total purchase price for the medical office building, including the land, is expected to be $51.2 million, with $50 million funded by RFS Bond Proceeds and $1.2 million in institutional funds. The $50 million in additional Revenue Financing System (RFS) debt will be repaid from clinical revenue. Annual debt service on $50 million RFS debt is expected to be $2.96 million. The institution’s debt service coverage is expected to be at least 2.6 times and average 2.9 times over FY 2017-2022.
U. T. Southwestern Medical Center will operate ambulatory clinics within the medical office building, initially using approximately 90,000 square feet of the building to provide clinical service in areas such as gastroenterology, general surgery, otolaryngology, plastic surgery, traumatic brain injury/concussion, spine, and orthopedics/sports medicine. The remaining 30,000 square feet of the building is planned for lease to community physicians, including the Texas Health Physicians Group. The building will follow the current naming convention for U. T. Southwestern Medical Center satellite clinics – the U. T. Southwestern Medical Center at Frisco.

A PowerPoint presentation is set forth on the following pages.
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion

Daniel K. Podolsky, M.D., President

U. T. System Board of Regents’ Meeting
June 28, 2017
U. T. Southwestern Medical Center
Clinical Strategy

• To meet challenges of the rapidly changing health care environment, this initiative is part of UT SWMC’s overarching clinical strategy:
  – Extension of Southwestern Health Resources, UT SWMC’s innovative partnership with Texas Health Resources (THR)
  – Increased access to manage large populations of health care consumers
  – Greater ability to provide value in a broader geography and referrals within the system
  – Simultaneously serves core missions through new educational and clinical research opportunities
U. T. Southwestern Medical Center
Public Purpose

- Participation in the formation and operation of the Frisco Medical Campus helps UTSWMC to fulfill public purposes in furtherance of its mission
  - The delivery of UTSWMC health care services to Frisco and the surrounding areas will improve the health of the community by providing expanded access to the highest quality care
  - The expansion in Frisco is conducive to financial sustainability and will allow UTSWMC to continue to focus on investments in its missions that cannot be adequately supported by state funds alone
  - The project will also enhance UTSWMC’s ability to conduct outstanding research and provide its students, residents, and other trainees with expanded opportunities for exposure to all dimensions of care delivery
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion

- Frisco offers a unique opportunity for UTSWMC to continue the geographic expansion of its clinical enterprise and leverage its partnership with THR
  - In addition to continued population growth in Frisco and neighboring cities, the Dallas North Tollway corridor includes communities with the highest managed care participation rates in North Texas
  - Failure to quickly enter this rapidly expanding market could result in unrecoverable loss of market share
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion

• 140-bed acute care hospital jointly owned with THR
  – 74 acute beds operational at opening and 60 shelled
  – 6 bed NICU, 8 operating rooms (4 inpatient and 4 outpatient)
  – 20 bed emergency department

• 120,000 SF Medical Office Building owned and operated by UTSWMC
  – UTSWMC will operate a multi-specialty clinic staffed by 46 specialists in 90,000 square feet
  – Space will also be available for community physicians, including Texas Health Physicians Group
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)

- $233,800,000 Total Hospital Project Cost
- $114,562,000 UTSWMC Cost (49%)
  - $114,562,000 Institutional Funds

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<tr>
<th>Description</th>
<th>Cost</th>
<th>GSF</th>
<th>Building Cost/GSF</th>
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<tr>
<td>Building</td>
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<td>$422</td>
</tr>
<tr>
<td>Parking &amp; Roadways</td>
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<td>Miscellaneous &amp; Contingency</td>
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<td>Working Capital</td>
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</table>
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)

• $58,700,000 Medical Office Building Total Project Cost
  – $50,000,000 Revenue Financing System Bonds
    • Building improvement and finish out, plus fixed equipment & furniture
    • Initially, the building will be jointly funded with THR in the same proportion as the hospital. Upon completion, the Medical Office Building will be sold to UTSWMC at cost
  – $7,500,000 Revenue Financing System Commercial Paper
    • Major medical equipment that will be purchased directly by UTSWMC to be used in the Medical Office Building and will remain property of UTSWMC
  – $1,200,000 Institutional Funds
    • Land for the Medical Office Building that UTSWMC will purchase
U. T. Southwestern Medical Center
Frisco Medical Campus Expansion (cont.)

- $58,700,000 Total Project Cost

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<tr>
<th>Item</th>
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<tr>
<td>Building</td>
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<td>Major Medical Equipment</td>
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<td>Land</td>
<td>$1,200,000</td>
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</table>
3. **U. T. System: Discussion and possible appropriate action regarding Available University Fund (AUF) expenditures, budget issues, and funding sources**

**REPORT**

Chancellor McRaven, Executive Vice Chancellor Kelley, and Associate Vice Chancellor, Controller, and Chief Budget Officer Wallace will report on and respond to questions concerning budget issues and funding sources. Dr. Kelley will present a PowerPoint presentation on Available University Fund (AUF) expenditures.

4. **U. T. System: Discussion and possible appropriate action concerning preparation for the July 2017 Board Retreat on issues related to the U. T. System, U. T. Academic Institutions, U. T. Health Institutions, and U. T. System Administration, including but not limited to roles and missions; past, current, and future budgets; and critical, essential, and enhancing functions of U. T. System Administration**