

MATERIAL SUPPORTING THE AGENDA

VOLUME XLVc

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

August 12-13, 1998

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.



Material Supporting the Agenda
of the
Board of Regents
The University of Texas System

Meeting No.: 916

Date: August 12-13, 1998

Location: Austin, Texas

BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

CALENDAR

Date: Wednesday, August 12, 1998

Time: 2:30 p.m.

Place: Second Floor Conference Room
Ashbel Smith Hall
201 West Seventh Street
Austin, Texas

Purpose: Convene in Open Session, Recess to
Executive Session Per the Agenda on
Pages Ex.S 1 - 2, Reconvene in Open
Session, and Recess

See Pages B of R 1 - 2,
Items A - D

Date: Thursday, August 13, 1998

Time: 8:45 a.m.

Place: Regents' Meeting Room, Ninth Floor
Ashbel Smith Hall
201 West Seventh Street
Austin, Texas

Purpose: Reconvene in Open Session to Continue
Until Completion of Business

See Pages B of R 3 - 26,
Items E - P

Telephone Numbers

Office of the Board of Regents (512) 499-4402

Four Seasons Hotel (512) 478-4500
98 San Jacinto Boulevard

Meeting of the Board

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: Wednesday, August 12, 1998

Time: 2:30 p.m.

Place: Second Floor Conference Room, Ashbel Smith Hall,
201 West Seventh Street, Austin, Texas

A. CALL TO ORDER

B. RECESS TO EXECUTIVE SESSION (TEXAS GOVERNMENT CODE,
CHAPTER 551)

1. Consultation with Attorney Regarding Pending and/or
Contemplated Litigation or Settlement Offers -
Section 551.071

U. T. Health Science Center - San Antonio:
Proposed Settlement of Medical Liability
Claim

2. Deliberations Regarding the Purchase, Exchange, Lease
or Value of Real Property - Section 551.072

U. T. Austin: Request for Authorization
to Purchase Real Property Described as
Lot 1 Garcia Subdivision and Located at
4611 Guadalupe Street in Austin, Travis
County, Texas; Authorization to Submit
the Purchase to the Texas Higher Educa-
tion Coordinating Board for Approval;
and Authorization to Execute All Docu-
ments Related Thereto

3. Negotiated Contracts for Prospective Gifts or Donations - Section 551.073
 - a. U. T. System: Deliberation of Recommendations of Kaludis Consulting Group Regarding Negotiated Contract for Prospective Gift/Donation Related to the Lower Rio Grande Valley Regional Academic Health Center
 - b. U. T. Austin: Deliberation Regarding Negotiated Contract for a Prospective Gift/Donation for the College of Fine Arts
4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

U. T. System: Consideration of Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1999, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein

- C. RECONVENE IN OPEN SESSION TO CONSIDER ACTION ON EXECUTIVE SESSION MATTERS (ITEM B ABOVE)
- D. RECESS TO BRIEFING SESSION IF TIME PERMITS

AGENDA FOR MEETING
OF
BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Date: Thursday, August 13, 1998

Time: 8:45 a.m. Reconvene in Open Session to
Continue Until Completion of
Business

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith
Hall, 201 West Seventh Street, Austin, Texas

E. RECONVENE IN OPEN SESSION

F. APPROVAL OF MINUTES OF REGULAR MEETING HELD
MAY 13-14, 1998

G. SPECIAL ITEMS

1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6 (Use of University Facilities) by Adding a New Subsection 6.(12).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Telecommunications and Information Technology that the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, relating to use of university facilities, be amended by adding a new Subsection 6.(12) as set forth in congressional style on Pages B of R 4 - 5.

Sec. 6. Use of University Facilities.

. . . .

6.(12) Use of the UT TeleCampus Internet Web Site by Universities and Other Entities Outside the U. T. System.--The UT TeleCampus internet web site established and maintained by the U. T. System Office of Telecommunications and Information Technology shall be for the primary purpose of providing access to distance learning courses offered by the U. T. System component institutions and providing students participating in on-campus or distance learning courses of the U. T. System component institutions with access to student support services such as registration, admission, financial aid, course advising, and library resources. The UT TeleCampus internet web site shall also be utilized by the U. T. System Office of Telecommunications and Information Technology to provide training and support to faculty of the U. T. System component institutions in the development of distance learning courses and degree programs. The U. T. System Office of Telecommunications and Information Technology may establish links to the UT TeleCampus internet web site for distance learning courses and information concerning such courses offered by universities and other entities outside the U. T. System under the following conditions:

6.(12)1 The course or courses must not be competitive with a course of a U. T. System component institution that may be accessed through the UT TeleCampus.

6.(12)2 The U. T. System Office of Telecommunications and Information Technology, with the advice of qualified U. T. System faculty, will determine whether the content and quality of each course are appropriate for the UT TeleCampus.

6.(12)3 The establishment of the link from the UT TeleCampus internet web site must be pursuant to an approved written agreement that (i) provides for appropriate compensation to the U. T. System Office of Telecommunications and Information Technology and (ii) permits the termination of the agreement with respect to any course or courses upon completion by students currently enrolled, if the U. T. System Office of Telecommunications and Information Technology determines that another source offers a higher quality course or if it is determined that a U. T. System component institution will provide access to a competitive course through the UT TeleCampus internet web site.

BACKGROUND INFORMATION

The UT TeleCampus is a centralized system that provides computer access to an internet web site maintained by the U. T. System Office of Telecommunications and Information Technology.

Through this UT TeleCampus internet web site students may access more than 200 distance learning courses offered by the U. T. System component institutions, whether the students are located in Texas or elsewhere. In addition, the UT TeleCampus permits students participating in on-campus courses or distance learning courses of the U. T. System component institutions to have access to various support services such as registration, admission, financial aid, course advising, and library resources. The development of new distance learning courses is also encouraged by the UT TeleCampus through training and support provided to faculty of the U. T. System component institutions who are engaged in the development of distance learning courses and degree programs.

The Office of Telecommunications and Information Technology has received a request to establish internet links to the UT TeleCampus web site for distance learning courses offered by universities and other entities outside the U. T. System. Questions have been raised concerning the authority of the Office of Telecommunications and Information Technology to establish such links and the circumstances under which such links should be established. Subject to the stated limitations, the recommended amendments to the Regents' Rules and Regulations, Part One, Chapter VI, Section 6, will permit the Office of Telecommunications and Information Technology to establish links to the UT TeleCampus internet web site pursuant to an approved written agreement. The proposed amendments have been reviewed and approved by the U. T. System Office of General Counsel.

2. U. T. System: Request for Approval of Amendments to the Policy and Guidelines Relating to Intellectual Property License Agreements with Private Entities.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Academic Affairs, and the Vice Chancellor and General Counsel that the U. T. System Policy and Guidelines Relating to Intellectual Property License Agreements with Private Entities be amended as set forth below in congressional style:

Patent and Technology License Agreements

Policy and Guidelines Relating to Intellectual Property License Agreements with Private Entities

The Office of General Counsel shall develop a model license agreement for U. T. System intellectual property which [~~agreement~~] shall include, as a minimum, the guidelines set forth below. The model agreement shall be submitted to all potential licensees for U. T. System intellectual property and individuals involved in negotiation of license agreements shall endeavor to achieve utilization of the significant aspects of the model agreement for all licenses of intellectual property rights.

No entity shall be granted the exclusive rights to the development and/or commercialization of all intellectual property created at a U. T. System component institution without approval of the U. T. Board of Regents. Otherwise, agreements should grant rights only on a specific project basis.

The following guidelines shall be applicable to license agreements with private entities including those formed primarily for the purpose of developing and/or commercializing intellectual property created at a U. T. System component institution:

- ~~[a. No entity shall be granted the exclusive right to the development and/or commercialization of all intellectual property created at a U. T. System component institution. Agreements should grant rights only on a specific project basis.]~~
- a[b]. If an entity is granted the exclusive rights with respect to a particular invention, product, process or other item of intellectual property, the agreement should provide that such rights will revert to the U. T. Board of Regents in the event the entity fails to diligently develop and commercialize the property within a specified period of time that is appropriate to the particular circumstances.
- b[e]. An entity that is granted exclusive rights to develop or commercialize intellectual property that is patentable should be required to reimburse the Board for all expenses incurred by the Board in obtaining a patent or, if a patent has not been obtained, should be required to prosecute and bear the expense of obtaining patent protection for the benefit of the Board and, in either event, the entity should be required to take all actions necessary, including litigation, to protect and preserve such patented rights from infringement.

c[d]. The U. T. System, the component institution, and the officers and employees of each should be protected and indemnified from all liability arising from the development, marketing, or use of the particular intellectual property.

d[e]. Restrictions on use by the component institution for research and teaching purposes and the publication rights of researchers should be minimized.

~~[f. If the entity fails to develop and commercialize the property, any additional technology or know-how discovered by the entity should be granted back to the U. T. Board of Regents so that another entity may be offered the right to develop and commercialize the entire technology package.]~~

e[g]. The entity should be required to comply with all applicable federal, state, and local laws and regulations, particularly those concerning biological materials and necessary testing and approval by the Food and ~~[Federal]~~ Drug Administration.

f[h]. The entity should be required to maintain confidentiality with regard to any unpatented technology or know-how.

g[i]. An entity that grants a license or sublicense to some other entity for property or technology that is in whole or in part derived from or based on that which is licensed to the entity by the Board, should be required to share with the U. T. System: 50% of any royalty received by the entity and 50% of any equity position to which the entity may be entitled.

h[j]. License agreements should contain such other provisions as may be determined to be in the best interest of the U. T. System by ~~[the Office of Asset Management and]~~ the Office of General Counsel.

~~[k. License agreements are subject to the approval of the Board and normally shall be submitted as docket items.]~~

BACKGROUND INFORMATION

The first proposed change to this Policy in Subsection a. will enable the grant of rights in intellectual property owned by the U. T. Board of Regents to facilitate important new initiatives at component institutions to better exploit intellectual property.

The second change proposes deletion of Subsection f. because this provision offers no real benefits and entails considerable efforts to negotiate. As a result, it is usually deleted from all agreements.

The third change, the deletion of Subsection k., brings this Policy into conformance with other changes made to the Regents' Rules and Regulations, Part Two, Chapter XII, Section 9 at the U. T. Board of Regents' February 1998 meeting.

This Policy was last amended by the U. T. Board of Regents at its December 1987 meeting.

3. U. T. System: Report of Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for March 1, 1998 Through May 31, 1998.--

(See Pages B of R 10 - 14 .)

ACCEPTANCE OF GIFTS HELD BY BOARD

# ALL ITEMS	COMPONENT INSTITUTION	ASSET TYPES							MATCHING FUNDS	TOTAL VALUE
		CASH	SECURITIES	REAL ESTATE	PLEDGES	OTHER	TRANSEERS			
9	U. T. Arlington	\$ 261,908	\$ -	\$ -	\$ 30,000	\$ -	\$ 640,000	\$ -	\$ 291,908 *	
35	U. T. Austin	\$ 1,704,981	\$ 367,073	\$ -	\$ 577,079	\$ -	\$ 5,760	\$ -	\$ 2,654,892	
1	U. T. Dallas	\$ 161,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,126	
10	U. T. El Paso	\$ 109,198	\$ 24,773	\$ 49,850	\$ -	\$ -	\$ -	\$ -	\$ 183,821	
4	U. T. Permian Basin	\$ 35,000	\$ -	\$ -	\$ 35,000	\$ -	\$ -	\$ -	\$ 70,000	
5	U. T. San Antonio	\$ 77,553	\$ 7,853	\$ -	\$ 4,000	\$ -	\$ -	\$ -	\$ 89,406	
2	U. T. Tyler	\$ 85,000	\$ -	\$ -	\$ -	\$ -	\$ 38,615	\$ -	\$ 123,615	
4	U. T. SWMC-Dallas	\$ 297,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 625,000	\$ 297,000 *	
7	U. T. M B.-Galveston	\$ 1,060,000	\$ -	\$ -	\$ 200,000	\$ -	\$ 250,000	\$ -	\$ 1,510,000	
3	UTHSC-Houston	\$ 350,000	\$ -	\$ 115,300	\$ -	\$ -	\$ -	\$ -	\$ 465,300	
4	UTHSC-San Antonio	\$ 31,585	\$ -	\$ -	\$ -	\$ -	\$ 400,000	\$ -	\$ 431,585	
19	UTMDACC	\$ 1,294,372	\$ -	\$ 128,960	\$ -	\$ 36,828	\$ 1,755,610	\$ -	\$ 2,460,160 *	
1	UTHC-Tyler	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	
104	TOTAL	\$ 5,517,723	\$ 399,699	\$ 294,110	\$ 846,079	\$ 36,828	\$ 3,089,985	\$ 625,000	\$ 8,788,814 *	

* Not included in total: U. T. Arlington - \$640,000 transfer of endowment funds;
 U. T. SWMC-Dallas - \$625,000 of Board-held matching funds; and
 UTMDACC - \$755,609.87 transfer of endowment funds.

NOTE: Compiled by Office of Development and External Relations

CLASSIFICATION OF GIFTS AND OTHER ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ENDOWMENTS</u>	<u>CHARITABLE REMAINDER TRUSTS</u>	<u>POOLED INCOME FUND</u>	<u>REMAINDER INTERESTS</u>	<u>HELD IN TRUST BY OTHERS</u>	<u>CURRENT PURPOSE</u>	<u>OTHER</u>
U. T. Arlington	9	---	---	---	---	---	---
U. T. Austin	30	1	---	---	2	2	---
U. T. Dallas	1	---	---	---	---	---	---
U. T. El Paso	9	---	---	1	---	---	---
U. T. Permian Basin	4	---	---	---	---	---	---
U. T. San Antonio	5	---	---	---	---	---	---
U. T. Tyler	2	---	---	---	---	---	---
U. T. SWMC-Dallas	4	---	---	---	1	---	---
U. T. M.B.-Galveston	7	---	---	---	---	---	---
UTHSC-Houston	3	---	---	---	---	---	---
UTHSC-San Antonio	4	---	---	---	---	---	---
UTMDACC	8	---	---	---	---	11	---
UTHC-Tyler	---	---	---	---	---	1	---
TOTAL	86	1	0	1	3	14	0

B
O
F
R
-
11

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

COMPONENT INSTITUTION	ENDOWMENT								CURRENT PURPOSE	OTHER PURPOSE
	DIST. CHAIR	CHAIR	DIST. PROF'SHIP	PROF'SHIP	FACULTY FELLOWSHIP	GRADUATE FELLOWSHIP	SCHOLARSHIP	OTHER		
U. T. Arlington	--	1	2	1	1	--	6	1	--	--
U. T. Austin	--	1	--	--	--	4	11	11	2	1
U. T. Dallas	--	--	--	--	--	--	1	--	--	--
U. T. El Paso	--	--	--	--	--	--	4	2	--	1
U. T. Permian Basin	--	--	--	--	--	--	3	--	--	--
U. T. San Antonio	--	--	--	--	--	--	5	--	--	--
U. T. Tyler	--	--	--	1	--	--	1	--	--	--
U. T. SWMC-Dallas	1	1	--	--	--	--	1	--	--	--
U. T. M.B.-Galveston	--	--	--	1	--	--	--	5	--	--
UTHSC-Houston	1	--	--	--	--	--	--	2	--	--
UTHSC-San Antonio	--	2	--	1	--	--	--	--	--	--
UTMDACC	--	--	--	3	1	--	--	6	11	--
UTHC-Tyler	--	--	--	--	--	--	--	--	1	--
TOTAL	2	5	2	7	2	4	32	27	14	2

B OF R - 12

Total purposes may not equal the total number of items because some items pertain to multiple purposes.

OTHER ADMINISTRATIVE ACTIONS

<u>COMPONENT</u> <u>INSTITUTION</u>	<u>ESTABLISH</u> <u>ENDOWMENT</u>	<u>REDESIGNATE</u> <u>ENDOWMENT LEVEL</u>	<u>OTHER</u> <u>REDESIGNATION</u>	<u>DISSOLVE</u> <u>ENDOWMENT</u>	<u>APPROVE/ALLOCATE</u> <u>MATCHING</u>	<u>ACCEPT</u> <u>TRUSTEESHIP</u>	<u>OTHER</u>
U. T. Arlington	11	---	---	---	---	---	---
U. T. Austin	27	---	4	---	---	1	---
U. T. Dallas	1	---	---	---	---	---	---
U. T. El Paso	6	---	3	---	---	---	---
U. T. Permian Basin	3	---	1	---	---	---	---
U. T. San Antonio	5	---	---	---	---	---	---
U. T. Tyler	1	1	---	---	---	---	---
U. T. SWMC-Dallas	3	1	---	---	2	---	---
U. T. M.B.-Galveston	5	---	1	---	---	---	---
UTHSC-Houston	2	1	---	---	---	---	---
UTHSC-San Antonio	---	3	2	---	---	---	---
UTMDACC	7	---	---	3	---	---	1
UTHC-Tyler	---	---	---	---	---	---	---
TOTAL	71	6	11	3	2	1	1

COMPARATIVE SUMMARY OF GIFTS ACCEPTED VIA THE OFFICIAL ADMINISTRATIVE PROCESS

B
O
F
R
-
1
4

COMPONENT INSTITUTION	FY 1997 FULL YEAR	FISCAL YEAR 1998			FULL YEAR
		9/1/97 - 11/30/97	12/1/97 - 2/28/98	3/1/98 - 5/31/98	
U. T. System	\$ ---	\$ ---	\$ ---	\$ ---	
U. T. Arlington	\$ 467,160	\$ 1,035,334	\$ 131,000	\$ 291,908	
U. T. Austin	\$ 12,596,223	\$ 3,958,202	\$ 5,118,954	\$ 2,654,892	
U. T. Brownsville	\$ 25,000	\$ 10,000	\$ ---	\$ ---	
U. T. Dallas	\$ 67,313	\$ 250,000	\$ ---	\$ 161,126	
U. T. El Paso	\$ 2,713,341	\$ 2,701,633	\$ 830,260	\$ 183,821	
U. T. Pan American	\$ 643,151	\$ ---	\$ ---	\$ ---	
U. T. Permian Basin	\$ 641,000	\$ 112,770	\$ 90,000	\$ 70,000	
U. T. San Antonio	\$ 380,500	\$ 86,593	\$ 40,908	\$ 89,406	
U. T. Tyler	\$ 65,000	\$ 40,000	\$ ---	\$ 123,615	
U. T. SWMC-Dallas	\$ 12,392,401	\$ 559,286	\$ 29,410,083	\$ 297,000	
U. T. M.B.-Galveston	\$ 8,403,150	\$ 2,260,581	\$ 180,150	\$ 1,510,000	
UTHSC-Houston	\$ 4,584,653	\$ 810,000	\$ 4,320,104	\$ 465,300	
UTHSC-San Antonio	\$ 2,489,807	\$ 1,000,000	\$ 500,000	\$ 431,585	
UTMDACC	\$ 1,977,697	\$ 1,497,744	\$ 7,340,320	\$ 2,460,160	
U. T. HC-Tyler	\$ 140,910	\$ ---	\$ 406,000	\$ 50,000	
U. T. Austin/UTMDACC	\$ 28,048	\$ ---	\$ ---	\$ ---	
TOTAL	\$ 47,615,354	\$ 14,322,143	\$ 48,367,779	\$ 8,788,814	

H. MATTERS RELATED TO THE UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY (UTIMCO)

U. T. System: Report on Investments for the Fiscal Quarter Ended May 31, 1998.--

REPORT

Pages B of R 18 - 21 contain the Summary Reports on Investments for the fiscal quarter ended May 31, 1998.

Item a on Page B of R - 18 presents the summary report for Permanent University Fund (PUF) Investments. The PUF began the quarter with a market value of \$6.976 billion. During the quarter, contributions of mineral income from PUF Lands equaled \$17.8 million, down 32% versus receipts for the third quarter of the preceding fiscal year. In addition, total investment return was \$184 million of which \$65.2 million was income return distributed to the Available University Fund (AUF) and \$118.8 million was price return. PUF market value ended the quarter at \$7.113 billion.

Quarter-end asset allocation was 65% broadly defined equities and 35% fixed income versus an unconstrained neutral allocation of 80% equities and 20% fixed income. Within equities, period-end allocation to equities was 46% U. S. large and mid cap stocks, 6% U. S. small cap stocks, 7% non-U. S. equities and 6% alternative equities.

The PUF's accrued investment income of \$65.2 million decreased by a nominal rate of 2.5% versus the third quarter of the prior fiscal year and by 4.2% on an inflation adjusted basis. The nominal decrease in income was attributable to a \$1.6 million decrease in interest income and a \$.1 million decrease in dividend and other income. The reinvestment spread on maturing and redeemed bonds was a negative 2.99% as bonds ran off at an average yield of 9.06% and were replaced by bonds yielding 6.07%. As of quarter-end, the distributable book yield on the \$2.4 billion fixed income portfolio declined to 7.83% versus 8.10% 12 months ago.

Accrued income of \$192.4 million for the three quarters of this fiscal year was slightly over budget of \$192 million, but \$3.4 million under actual income for the three quarters of fiscal year 1997.

Total investment return (unannualized) for the quarter was 2.6%. The fixed income portfolio posted a total return of 2.2% for the fiscal quarter versus 1.8% for the Lehman Aggregate Bond Index. Equities, as an asset class, continued to generate higher relative returns with the S&P 500 Index and Russell 3000 Index posting returns of 4.4% and 3.4%, respectively. The PUF's equity portfolios (including non-U. S. portfolios) produced a lower 2.6% return largely due to exposure to high yielding REIT and equity income portfolios which underperformed lower yielding growth equities. Finally, alternative equities produced a 5.2% return for the quarter.

Item b on Page B of R - 19 reports summary activity for the Long Term Fund (LTF). During the quarter, net contributions totaled \$25.5 million. Investment return was \$60.7 million, of which \$24.7 million was paid to the 4,705 endowment and other accounts underlying the LTF at quarter-end. Total payout increased by 24% over the previous May 1997 quarter, reflecting both the increase in the number of Fund units outstanding and the increase in payout to \$0.21 per unit. The Fund's market value closed the quarter at \$2.418 billion, up \$57 million from the prior quarter. The LTF's value per unit also increased, ending the quarter at \$5.17 versus \$5.09 on February 28, 1998.

Asset allocation at quarter-end was 20% fixed income and 80% broadly defined equities. Within equities, U. S. small cap and non-U. S. equities were slightly overweighted at 13% and 17%, respectively. U. S. large and mid cap equities were substantially overweighted at 44% vs. 30%, while alternative equities were underweighted at 6% versus a neutral weighting of 25%. Total investment return for the quarter was 2.5% and 21.3% for the last 12 months.

Item c on Page B of R - 20 presents quarterly activity for the Short/Intermediate Term Fund. During the quarter, the Fund received net contributions of \$31.5 million. It earned \$25.4 million in total return and incurred expenses of \$100 thousand. Distributions to the U. T. System component institutions equaled \$25.2 million, resulting in a quarter-end Fund value of \$1.681 billion. Total return on the Fund was 1.5% for the quarter versus the Fund's performance benchmark of 1.5%.

Item d on Page B of R - 21 presents book and market value of cash, fixed income, equity and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of component operating funds held in the Dreyfus money market fund, increased by \$160 million to \$884 million during the quarter. Asset values for the remaining asset classes were fixed income securities: \$70 million versus \$79 million at previous quarter-end; equities: \$39 million versus \$37 million at previous quarter-end; and other investments of \$16 million versus \$6 million at previous quarter-end.

a. PERMANENT UNIVERSITY FUND

Summary Investment Report at May 31, 1998.--

PERMANENT UNIVERSITY FUND (1)
INVESTMENT SUMMARY REPORT
(\$ millions)

	FY96-97	FY97-98			
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	Year-To-Date
Beginning Market Value	5,292.1	6,368.3	6,615.1	6,976.4	6,368.3
PUF Lands Receipts (2)	85.2	25.8	20.2	17.8	63.8
Investment Income (3)	263.0	63.1	64.1	65.2	192.4
Change in Undistributed Income Payable to the Available University Fund (4)	2.2	-	-	-	-
Investment Income Distributed (4)	(265.2)	(63.1)	(64.1)	(65.2)	(192.4)
Realized Gains	251.0	123.3	87.6	92.3	303.2
Change in Unrealized Gains	740.0	97.7	253.5	26.5	377.7
Ending Market Value	6,368.3	6,615.1	6,976.4	7,113.0	7,113.0
AUF income:					
Investment Income	263.0 (5)	63.1	64.1	65.2	192.4
Surface Income	5.3	1.2	2.2	1.0	4.4
Total	268.3	64.3	66.3	66.2	196.8

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.

- (1) Excludes PUF Lands mineral and surface interests with estimated June 30, 1997, values of \$550.5 million and \$151.8 million, respectively.
- (2) As of May 31, 1998: 1,068,744 acres under lease; 527,561 producing acres; 3,205 active leases; and 2,070 producing leases.
- (3) Investment income includes amortization of discount and premium bonds in accordance with statutory requirements.
- (4) For FY96-97, cash investment income was distributed to AUF. Effective FY97-98, accrued investment income is distributed to AUF.
- (5) Restated on an accrual basis for comparative purposes.

b. LONG TERM FUND

Summary Investment Report at May 31, 1998.--

LONG TERM FUND
SUMMARY REPORT
(\$ millions)

	FY96-97	FY97-98			Year-To-Date
	Full Year	1st Qtr	2nd Qtr	3rd Qtr	
Beginning Net Assets	1,712.1	2,125.0	2,195.7	2,360.8	2,125.0
Net Contributions	66.1	20.5	20.2	25.5	66.2
Investment Return	433.8	71.9	166.6	60.7	299.2
Receipt of Funds from System for UTIMCO Fee	-	0.5	0.5	0.5	1.5
Expenses	(4.5)	(1.4)	(1.4)	(1.8)	(4.6)
Distributions (Payout)	(79.1)	(20.7)	(20.8)	(24.7)	(66.2)
Distribution of Gain on Participant Withdrawals	(3.4)	(0.1)	-	(2.8)	(2.9)
Ending Net Assets	2,125.0	2,195.7	2,360.8	2,418.2	2,418.2
Net Asset Value per Unit	4.672	4.782	5.094	5.168	
No. of Units (End of Period)	454,803,889	459,182,234	463,409,072	467,870,742	
Distribution Rate per Unit	0.175	0.0450	0.0450	0.0525	

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.

c. SHORT/INTERMEDIATE TERM FUND

Summary Investment Report at May 31, 1998.--

**SHORT/INTERMEDIATE TERM FUND
SUMMARY REPORT
(\$ millions)**

	<u>FY96-97</u>	<u>FY97-98</u>			
	<u>Full Year</u>	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>Year-To-Date</u>
Beginning Net Assets	1,332.1	1,631.4	1,619.7	1,649.0	1,631.4
Contributions (Net of Withdrawals)	274.3	(26.9)	15.6	31.5	20.2
Investment Return	115.4	40.4	38.4	25.4	104.2
Expenses	(0.4)	(0.1)	(0.2)	(0.1)	(0.4)
Distributions of Income	<u>(90.0)</u>	<u>(25.1)</u>	<u>(24.5)</u>	<u>(25.2)</u>	<u>(74.8)</u>
Ending Net Assets	1,631.4	1,619.7	1,649.0	1,680.6	1,680.6

Report prepared in accordance with Sec. 51.0032 of the Texas Education Code.

d. SEPARATELY INVESTED ASSETS

Summary Investment Report at May 31, 1998.--

SEPARATELY INVESTED ASSETS
SUMMARY REPORT
(\$ thousands)

ASSET TYPES	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		OPERATING FUNDS		TOTAL	
	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET
Cash & Equivalents:														
Beginning value 3/1/98	5,797	5,797	2,989	2,989	28,979	28,979	494	494	-	-	686,453	686,453	724,712	724,712
Increase/(Decrease)	(2,165)	(2,165)	1,740	1,740	(7,702)	(7,702)	(111)	(111)	-	-	168,520	168,520	160,282	160,282
Ending value 5/31/98	3,632	3,632	4,729	4,729	21,277	21,277	383	383	-	-	854,973	854,973	884,994	884,994
Debt Securities:														
Beginning value 3/1/98	-	-	7	5	66,459	68,521	10,438	11,056	-	-	-	-	76,904	79,582
Increase/(Decrease)	-	-	-	-	(9,197)	(9,767)	195	229	-	-	-	-	(9,002)	(9,538)
Ending value 5/31/98	-	-	7	5	57,262	58,754	10,633	11,285	-	-	-	-	67,902	70,044
Equity Securities:														
Beginning value 3/1/98	42	2,632	503	532	17,983	27,840	5,593	6,460	-	-	-	-	24,121	37,464
Increase/(Decrease)	-	933	79	64	(15)	386	569	493	-	-	-	-	633	1,876
Ending value 5/31/98	42	3,565	582	596	17,968	28,226	6,162	6,953	-	-	-	-	24,754	39,340
Other:														
Beginning value 3/1/98	-	-	669	669	(650)	(650)	6,136	6,616	-	-	-	-	6,155	6,635
Increase/(Decrease)	9,000	9,000	219	219	596	596	183	137	-	-	-	-	9,998	9,952
Ending value 5/31/98	9,000	9,000	888	888	(54)	(54)	6,319	6,753	-	-	-	-	16,153	16,587

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

I. RECESS FOR MEETINGS OF THE STANDING COMMITTEES AND
COMMITTEE REPORTS TO THE BOARD

The Standing Committees of the Board of Regents of The University of Texas System will meet as set forth below to consider recommendations on those matters on the agenda for each Committee listed in the Material Supporting the Agenda. At the conclusion of each Standing Committee meeting, the report of that Committee will be formally presented to the Board for consideration and action.

Executive Committee: Chairman Evans
Vice-Chairman Loeffler, Vice-Chairman Clements
MSA Page Ex.C - 1

Business Affairs and Audit Committee: Chairman
Riter, Regent Hicks, Regent Oxford
MSA Page BAAC - 1

Academic Affairs Committee: Chairman Lebermann
Regent Clements, Regent Riter, Regent Smiley
MSA Page AAC - 1

Health Affairs Committee: Chairman Loeffler
Regent Clements, Regent Oxford, Regent Sanchez
MSA Page HAC - 1

Facilities Planning and Construction Committee:
Chairman Clements, Regent Lebermann, Regent Sanchez
MSA Page FPCC - 1

J. RECONVENE AS COMMITTEE OF THE WHOLE

K. ITEM FOR THE RECORD

U. T. El Paso: Report on Renaming The El Paso Energy Conference Center as The El Paso Natural Gas Conference Center.--

REPORT

At the November 1997 meeting, the U. T. Board of Regents approved the redesignation of the University Commons at U. T. El Paso as The El Paso Energy Conference Center. This naming recognized the contribution of the El Paso Energy Foundation to the renovation of this facility and the Foundation's past financial support of U. T. El Paso.

Mr. William A. Wise, Chairman and Chief Executive Officer of El Paso Energy Company, recently requested that the company's previous name, El Paso Natural Gas Company, be incorporated into the facility name. Therefore, it is reported for the record that the University Commons facility name will be changed from The El Paso Energy Conference Center to The El Paso Natural Gas Conference Center.

L. REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

REPORT

The Board for Lease of University Lands met on Tuesday, May 19, 1998, at the Center for Energy and Economic Diversification in Midland, Texas, for a general business meeting and to hold Regular Oil and Gas Lease Sale No. 93 and Frontier Oil and Gas Lease Sale No. 93-A.

Following is a report on the results of the lease sales:

- a. Regular Oil and Gas Lease Sale No. 93:
50,195.365 acres (161 tracts) of Permanent University Fund lands were nominated for lease. Bonuses in the amount of \$949,998 were paid for leases covering 8,344.125 acres (21 tracts).
- b. Frontier Oil and Gas Lease Sale No. 93-A:
156,598.100 acres (226 tracts) in Hudspeth County were nominated for lease. Bonuses in the amount of \$1,737,478 were paid for leases covering 156,598.100 acres (226 tracts).
- c. Total bonuses paid were \$2,687,476.

Following is a report on the general business meeting:

- a. Approved the Minutes of the Board for Lease meeting of March 17, 1998
- b. Approved lease procedures and terms for Regular Oil and Gas Lease Sale No. 94 and Frontier Oil and Gas Lease Sale No. 94-A to be held in November 1998
- c. Discussed status of issues related to pooled units
- d. Approved management of the royalty in-kind programs as presented by staff

- e. Approved and authorized (i) the repeal of the current rules of the Board for Lease of University Lands at the earliest possible date; (ii) the adoption of the proposed rules without change to be effective upon the repeal of the current rules; and (iii) the publication of notice related to Agency Rule Review.

The Board for Lease of University Lands met on Tuesday, June 16, 1998, in the fourth floor conference room of O. Henry Hall in Austin, Texas, for a general business meeting.

Following is a report on the general business meeting:

- a. Approved Minutes of the Board for Lease meeting of May 19, 1998
- b. Approved modified lease terms for Regular Oil and Gas Lease Sale No. 94 to be held in November 1998
- c. Approved lease procedures and terms for Frontier Oil and Gas Lease Sale No. 93-A1 to be held in July 1998
- d. Approved modified lease procedures and terms for Frontier Oil and Gas Lease Sale No. 94-A to be held in November 1998.

The next meeting of the Board for Lease of University Lands to include lease awards for Frontier Oil and Gas Lease Sale No. 93-A1 is scheduled in the Regents' Meeting Room on the ninth floor of Ashbel Smith Hall in Austin, Texas, on July 29, 1998. Bids will be opened at the Center for Energy and Economic Diversification in Midland, Texas, on July 28, 1998.

M. OTHER MATTERS

N. SCHEDULED EVENTS

1. Board of Regents' Meetings

<u>Dates</u>	<u>Locations/Hosts</u>
November 11-12, 1998	U. T. M.D. Anderson Cancer Center
February 10-11, 1999	U. T. Austin
May 12-13, 1999	U. T. Pan American
August 11-12, 1999	U. T. Medical Branch - Galveston
November 10-11, 1999	U. T. Southwestern Medical Center - Dallas

2. Other Events

September 10, 1998	U. T. M.D. Anderson Cancer Center: Faculty Honors Convocation
October 22, 1998	U. T. Austin: Dedi- cation of the Bernard and Audre Rapoport Building
October 29, 1998	U. T. M.D. Anderson Cancer Center: University Cancer Foundation Board of Visitors' Meeting

O. OTHER BUSINESS

P. ADJOURNMENT

1998

JANUARY

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

FEBRUARY

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28

MARCH

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

APRIL

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

MAY

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

JUNE

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

JULY

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

AUGUST

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

SEPTEMBER

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

OCTOBER

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

NOVEMBER

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

DECEMBER

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

1999

JANUARY

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

FEBRUARY

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28					

MARCH

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

APRIL

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

MAY

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

JUNE

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

JULY

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

AUGUST

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

SEPTEMBER

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

OCTOBER

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

NOVEMBER

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

DECEMBER

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

Executive Committee

EXECUTIVE COMMITTEE
Committee Chairman Evans

Date: August 13, 1998

Time: Following the Reconvening of the Board of Regents
at 8:45 a.m.

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith
Hall

Page
Ex.C

There are no items to be considered by the Executive
Committee for this meeting.

Business Affairs & Audit Committee

BUSINESS AFFAIRS AND AUDIT COMMITTEE
Committee Chairman Riter

Date: August 13, 1998
Time: Following the Meeting of the Executive Committee
Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith Hall

	<u>Page</u> <u>BAAC</u>
1. U. T. System: Recommendation to Approve <u>Chancellor's Docket No. 94</u>	4
2. U. T. Board of Regents: Proposed Amendments to the Regents' <u>Rules and Regulations</u> , Part Two, Chapter III, Section 1, Subsection 1.4 (Receipts, Admission Tickets, and Charges)	4
3. U. T. Board of Regents: Proposed Adoption of Resolution Authorizing the Execution and Delivery of a Dealer Agreement Relating to Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A and Series B; Appointment of Merrill Lynch, Pierce, Fenner & Smith Incorporated, New York, New York, as Dealer; and Authorization for Officers of U. T. System to Complete All Transactions	6

4. U. T. Board of Regents: Proposed Adoption of Seventh Supplemental Resolution to the Master Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998C and Series 1998D, in an Aggregate Amount Not to Exceed \$158,500,000; Approval of the Preliminary Official Statement; Authorization for Sale of the Bonds to Smith Barney Inc., New York, New York; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel; Appointment of Chase Bank of Texas, N. A., Austin, Texas, as Paying Agent/Registrar; Appointment of Bankers Trust Company, New York, New York, as Escrow Agent; Appointment of McGladrey & Pullen, L.L.P., Minneapolis, Minnesota, 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 15

5. U. T. System: Recommended Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1999, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects 210

6. U. T. System: Request to Approve an Aggregate Amount of Equipment Financing for Fiscal Year 1999 and Approve the Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity 213

7. U. T. System: Recommended Change of Monthly Premiums for the Texas Universities Health Plan to be Effective September 1, 1998 217

8. U. T. System: Recommendation to Revise and Rename the Environmental Review Policy for Acquisitions of Real Estate 218
9. U. T. Austin - C. B. Smith, Sr. Centennial Chairs in United States - Mexico Relations: Request for Approval to Sell Approximately 6.4 Acres of Land Located on Teri Road, Austin, Travis County, Texas, and Authorization to Execute All Documents Related Thereto 226
10. U. T. Health Science Center - Houston: Request for Determination of Necessity and Authorization to Acquire Approximately 5.1 Acres of Land Located on the Northwest Corner of El Paseo and Cambridge Streets in Houston, Harris County, Texas; Authorization to Take All Necessary Actions Needed to Acquire Through Purchase or Eminent Domain; and Authorization to Execute All Documents Related Thereto 227

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the June 1998 Monthly Financial Report 228
2. U. T. System: Report on Status of Action Plan to Ensure Institutional Compliance 229

1. U. T. System: Recommendation to Approve Chancellor's Docket No. 94.--

RECOMMENDATION

It is recommended that Chancellor's Docket No. 94 be approved.

It is requested that the committee confirm that authority to execute contracts, documents, or instruments approved therein has been delegated to the officer or official executing same.

2. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4 (Receipts, Admission Tickets, and Charges).--

RECOMMENDATION

The Chancellor concurs with the recommendation of the Executive Vice Chancellor for Business Affairs that the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4, relating to receipts, admission tickets, and charges, be amended as set forth below in congressional style to require payment of certain oil and gas royalties to the U. T. Board of Regents by electronic funds transfer:

Sec. 1. Receipts, Admission Tickets, and Charges.

. . . .

- 1.4 Any person who paid oil and gas royalties to the Board in a total amount of \$60,000 [~~\$250,000~~] or more during a fiscal year, being September 1 to August 31, shall make timely oil and gas royalty payments to the Board by means of electronic funds transfer during the subsequent calendar year. Any person required to submit payments electronically shall also file the required Royalty Payment Summary (Form UT-3) by means of electronic

transmission if requested by the University Lands Accounting Office in a manner compatible with the equipment and facilities of the University Lands Accounting Office. The payor shall timely take all actions necessary to facilitate payment of oil and gas royalties by electronic funds transfer if requested by the University Lands Accounting Office and electronic filing of the Form UT-3, including completing any documents required by the Comptroller of the State of Texas and the University Lands Accounting Office. Electronic funds transfers shall be made in accordance with applicable laws, including Section 404.095, Texas Government Code. This Subsection applies only to oil and gas royalties from Permanent University Fund lands to the extent authorized by Section 404.095, Texas Government Code.

. . . .

BACKGROUND INFORMATION

These amendments to the Regents' Rules and Regulations, Part Two, Chapter III, Section 1, Subsection 1.4, will provide a higher degree of internal control over a greater percentage of oil and gas royalties paid to the Permanent University Fund. In addition, payments received by means of electronic transfer are received and available in a more timely manner. The University Lands Accounting Office intends to request that all payors subject to this Regents' Rule also electronically file the required Royalty Payment Summary (UT-3) when it can be assured that filing over the internet can be accomplished in a secure manner.

3. U. T. Board of Regents: Proposed Adoption of Resolution Authorizing the Execution and Delivery of a Dealer Agreement Relating to Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A and Series B; Appointment of Merrill Lynch, Pierce, Fenner & Smith Incorporated, New York, New York, as Dealer; 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 a Resolution authorizing the execution and delivery of a Dealer Agreement relating to the Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A and Series B, as set out on Pages BAAC 8 - 9
- b. Appoint Merrill Lynch, Pierce, Fenner & Smith Incorporated, New York, New York, as Dealer for these Commercial Paper Notes per the Tax Exempt Commercial Paper Dealer Agreement set out on Pages BAAC 10 - 14
- c. Authorize appropriate officers and employees of the U. T. System 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 Revenue Financing System Commercial Paper Notes, Series A, were authorized by the First Supplemental Resolution to the Master Resolution adopted by the U. T. Board of Regents on April 12, 1990, and amended on October 8, 1993, and February 9, 1995. The Series B Notes were authorized by the Fifth Supplemental Resolution to the Master Resolution adopted by

the U. T. Board of Regents on November 14, 1996. At the inception of the commercial paper program, which includes Series A and Series B Notes, Goldman, Sachs & Co. was selected as the commercial paper dealer and continues to serve as the dealer. The dealer acts as an agent to sell the commercial paper in the public debt markets. Goldman, Sachs & Co. has also served as the dealer for the Permanent University Fund Variable Rate Notes, Series A program, since the inception of the program on December 6, 1985.

To create greater competition in the setting of the interest rates for the two short-term debt programs, a new dealer is being recommended for the Revenue Financing System Commercial Paper Notes, Series A and Series B. Several firms including Lehman Brothers; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Morgan Stanley Dean Witter; PaineWebber Incorporated; and Salomon Smith Barney were interviewed to serve as a dealer. All of the firms are qualified to serve as dealer; however, Merrill Lynch, Pierce, Fenner & Smith Incorporated is recommended because of its technological capabilities and its participation in two recent competitive debt sales which included \$130,000,000 Permanent University Fund Bonds issued on December 11, 1997, and \$50,000,000 of Permanent University Fund Variable Rate Notes, Series A, issued on June 9, 1997.

RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF A DEALER AGREEMENT RELATING TO THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES SERIES A AND SERIES B AND TAKING OTHER ACTIONS RELATED THERETO

WHEREAS, on February 9, 1995, as amended on November 13, 1997, the Board of Regents of The University of Texas System (the "Board") adopted the Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program (the "Series A Note Resolution"); and

WHEREAS, on November 14, 1996, the Board adopted the Fifth Supplemental Resolution to the Master Resolution authorizing the Board's Revenue Financing System Taxable Commercial Paper Notes, Series B (the "Series B Note Resolution"); and

WHEREAS, the Series A Note Resolution and the Series B Note Resolution are hereinafter collectively referred to as the "Note Resolution"; and

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

WHEREAS, the staff of the Board, after soliciting and reviewing qualifications of additional firms, has recommended that Merrill Lynch, Pierce, Fenner & Smith Incorporated be named the dealer for each commercial paper program (the "Dealer").

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

Section 1. Merrill Lynch, Pierce, Fenner & Smith Incorporated is hereby appointed the Dealer for each commercial paper program and the Assistant Vice Chancellor for Finance is hereby authorized and directed to execute and deliver a Dealer Agreement in substantially the form attached hereto with Merrill Lynch, Pierce, Fenner & Smith Incorporated.

Section 2. The Chairman of the Board, the Vice Chairman of the Board, the Executive Secretary to the Board, the Assistant Vice Chancellor for Finance, and the other officers, employees, and agents of the Board are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Notes and otherwise to effectuate the purposes of this resolution.

Section 3. It is hereby found and determined that each of the officers and members of the Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the Meeting at which this resolution was adopted, and that this resolution would be introduced and considered for adoption at said meeting; that said meeting was open to the

public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

TAX EXEMPT COMMERCIAL PAPER DEALER AGREEMENT

August __, 1998

Merrill Lynch, Pierce, Fenner & Smith Incorporated
Merrill Lynch World Headquarters
World Financial Center - North Tower
250 Vesey Street - 9th Floor
New York, New York 10281-1309

Re: Board of Regents of The University of Texas System
Revenue Financing System Commercial Paper Notes
Series A, \$350,000,000 and Series B, \$25,000,000

Ladies and Gentlemen:

This letter agreement (the "Agreement") sets forth our understanding of the basis on which Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPFS") proposes to work with the Board of Regents of The University of Texas System (the "Board"), the governing body of The University of Texas System (the "System"), in connection with the issuance and sale by the Board of its above captioned commercial paper notes (the "Notes"). The Board has requested MLPFS to act as commercial paper dealer in connection with the sale of the Notes of each Series in the public debt markets, and MLPFS has indicated its willingness to act in such capacity on the terms and conditions contained herein. The Notes of each Series will be represented by either individual note certificates ("Certificated Notes") or a master note of the Board substantially in the forms appended as Exhibit C to the Board's Amended and Restated First Supplemental Resolution to the Master Resolution Establishing the Revenue Financing System Commercial Paper Program, adopted on February 9, 1995, as amended on November 13, 1997 relating to the Series A Notes (the "Series A Note Resolution") and appended as Exhibit C to the Board's Fifth Supplemental Resolution authorizing the issuance, sale and delivery of the Board's Revenue Financing System Taxable Commercial Paper Notes, Series B, adopted on November 14, 1996, relating to the Series B Notes (the "Series B Note Resolution"). The Series A Note Resolution and the Series B Note Resolution are hereafter collectively referred to as the "Note Resolution". Notes represented by a master note shall be referred to herein as "Book-Entry Notes". The Series A Notes are to be issued pursuant to an Amended and Restated Commercial Paper Issuing and Paying Agent Agreement dated March 1, 1995, (the "Issuing and Paying Agent Agreement") between the Board and Bankers Trust Company (the "Issuing Agent"). Prior to the sale of Series B Notes, an issuing agent for such Notes will be selected and an issuing and paying agent agreement will be entered into. Terms used herein and not otherwise defined shall have the meaning given in the Note Resolution.

1. The Notes are not currently supported by a line or letter of credit. The Board will notify MLPFS and the holders of outstanding Notes prior to entering into a Credit Agreement to

provide the Board with liquidity with regard to its obligations under the Notes. In addition, no such liquidity facility will be entered into with respect to or supporting then outstanding Notes.

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

3. The Series A Notes have been rated A-1 and P-1 by Standard and Poor's Ratings Services, and Moody's Investors Service, respectively. Prior to the sale of any Series B Notes, comparable ratings will be obtained with respect to such Notes.

4. Prior to the initial purchase or placement by MLPFS of Notes hereunder, MLPFS shall have received such legal opinions and certifications as MLPFS may reasonable require.

5. The Notes of each Series will be issued by the Board pursuant to the Note Resolution and the laws of the State of Texas, particularly Chapter 55, Texas Education Code and Article 717q, Vernon's Annotated Texas Civil Statutes. The Notes will have a maturity at the time of issuance of not more than 270 days and will not contain any provision for automatic "rollover". In addition, the Notes will be issued in an aggregate principal amount not to exceed at any one time outstanding \$350,000,000, and shall be issued in principal amounts of \$100,000 or in integral multiples of \$1,000 in excess thereof and will bear such interest rates (if interest bearing), as shall mutually be agreed to by the Board and MLPFS at the time of each proposed purchase or placement as provided in the respective Note Resolution. In addition, the Notes shall not be sold in principal amounts and with interest rates which would result in more than \$25,000,000 in principal and interest on the Notes coming due on any one date.

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

(b) Prior to 12:30 p.m., New York City time, on each day on which Notes are to be sold, a designated representative of MLPFS will either communicate by electronic transmission of each purchase or placement to the Board, which confirmations shall set forth the principal amounts, maturities and denominations of the Notes purchased or placed and the applicable interest rates.

(c) When agreement is reached on the foregoing, (i) if the Notes are evidenced by Certificated Notes, the Board will instruct the Issuing Agent or another issuing agent designated by the Board in a written notice to MLPFS to deliver executed and countersigned Certificated Notes to Merrill Lynch Money Markets Operations, 75 Barclay Street, Street Level, New York, New York 10080, Attention: Al Mitchell or such other address as provided to the Board by MLPFS prior to 12:30 p.m., New York City time, on the date of issuance and (ii) if the Notes are to be Book-Entry Notes, the issuance of any payment for such Notes will be governed by a letter agreement between the Board and The Depository Trust Company dated March 2, 1995 and MLPFS, as Dealer, covenants to comply with such provisions.

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

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

8. (a) MLPFS agrees to furnish all Offering Materials to the Board for its written approval prior to the use thereof in offering the Notes. No other written information, circulars or statements will be distributed by MLPFS. If, at any time during the term of this Agreement, any event occurs or circumstances exist as a result of which any then current Offering Materials would include such an untrue statement or omission, the Board will promptly notify MLPFS and provide to MLPFS revised information that corrects such untrue statement or omission. The Board agrees that MLPFS' acting as a dealer for the Notes is conditioned upon its being able to provide such Offering Materials to purchasers or potential purchasers as MLPFS in its reasonable judgment deems appropriate.

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

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

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

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

- (i) the representations, warranties and covenants of the Board contained in this Agreement are true and correct on and as of the date of such sale;
- (ii) no event has occurred and is continuing, or would result from such sale, which constitutes or would constitute an event of default, or which would constitute an event of default but for the requirement that notice be given or time elapse or both, under any of the Board's indebtedness secured with the net revenues of the Board; and
- (iii) there has been no material adverse change in the financial condition or operations of the System since the date of the most recent Offering Materials which has not been disclosed to MLPFS in writing.

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

12. All notices required or permitted under the terms and provisions hereof shall be in writing (which shall include electronic transmission) and shall, unless otherwise provided herein, be effective when received at the address specified below or at such other address as shall be specified in a notice furnished hereunder.

If to the Board:

Board of Regents of The University of Texas System
201 West 7th Street
Austin, Texas 78701-2981
Attention: Pamela K. Clayton, Assistant Vice Chancellor for Finance
Tel. No.: (512) 499-4334
Facsimile No.: (512) 499-4367
email: pclayton@utsystem.edu

If to MLPFS:

Merrill Lynch, Pierce, Fenner & Smith Incorporated
250 Vesey Street - 9th Floor (WFCN-9)
New York, New York 10281-1310
Attention: Donna Ciccimarro
Tel: No.: (212) 449-5501
Facsimile No.: (212) 449-9856
email:

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

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

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

16. This Agreement may be terminated by either party, at any time upon thirty (30) days notice to such effect to the other party. Any such termination, however, shall not affect the obligation of the Board under Sections 11, 12 or 15 hereof or the rights or responsibilities of the parties arising prior to the termination of this Agreement.

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

Very truly yours,

THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Assistant Vice Chancellor for Finance

Accepted and agreed to this _____:

MERRILL LYNCH, PIERCE,
FENNER & SMITH INCORPORATED

By: _____
Authorized Signatory

4. U. T. Board of Regents: Proposed Adoption of Seventh Supplemental Resolution to the Master Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998C and Series 1998D, in an Aggregate Amount Not to Exceed \$158,500,000; Approval of the Preliminary Official Statement; Authorization for Sale of the Bonds to Smith Barney Inc., New York, New York; Appointment of McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Bond Counsel; Appointment of Chase Bank of Texas, N. A., Austin, Texas, as Paying Agent/Registrar; Appointment of Bankers Trust Company, New York, New York, as Escrow Agent; Appointment of McGladrey & Pullen, L.L.P., Minneapolis, Minnesota, 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 Seventh Supplemental Resolution to the Master Resolution and approve the Preliminary Official Statement substantially in the form set out on Pages BAAC 18 - 208 to authorize the issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998C and Series 1998D, in an aggregate principal amount not to exceed \$158,500,000 with a final maturity not to exceed August 15, 2019, to be used to refund Revenue Financing System Commercial Paper Notes, Series A, to provide new money to fund construction and acquisition cost of projects in the FY 1998-2003 Capital Improvement Program, and to pay costs of issuance

- b. Authorize the sale of the Revenue Financing System Bonds, Series 1998C and Series 1998D, to Smith Barney Inc., 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
- d. Appoint Chase Bank of Texas, N. A., Austin, Texas, as Paying Agent/Registrar
- e. Appoint Bankers Trust Company, New York, New York, as Escrow Agent
- f. Appoint McGladrey & Pullen, L.L.P., Minneapolis, Minnesota, 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 (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page BAAC - 209, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's costs including any costs 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 U. T. Board of Regents relating to the Financing System

- c. The component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their Direct Obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

Proceeds from the Revenue Financing System Bonds, Series 1998C, will be used to refund outstanding Revenue Financing System Commercial Paper Notes, Series A, and fund construction costs of \$46,680,000 for projects authorized by Section 55.1722 of the Texas Education Code. Section 55.1722 identified Tuition Revenue Bonds as the method of financing for projects at specific U. T. System component institutions.

A portion of the proceeds, \$105,092,000, of the Revenue Financing System Bonds, Series 1998D, will be used to refund outstanding Revenue Financing System Commercial Paper Notes, Series A, and to fund construction costs for projects that generate revenues from the use of the facility. The remaining proceeds will be used to pay costs of issuance and provide for an original issue discount.

Generally, commercial paper debt is issued during the construction phase, and the debt is not amortized. Once construction is complete, the commercial paper is refunded with 20-year, fixed-rate bonds. With municipal long-term interest rates at historical lows, outstanding commercial paper and new money for construction are being financed with 20-year, fixed-rate bonds.

**SEVENTH 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**

SEVENTH 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

TABLE OF CONTENTS

PREAMBLE:

Section 1. DEFINITIONS

Section 2. AMOUNT, PURPOSE, AND DESIGNATION OF THE BONDS

Section 3. DATE, DENOMINATIONS, NUMBERS, MATURITIES,
AND TERMS OF BONDS

(a) Terms of Bonds

(b) Award Certificate

(c) Sale of Bonds

(d) Continuing Disclosure

(i) Annual Reports

(ii) Material Event Notices

(iii) Limitations, Disclaimers, and Amendments

(e) In General

Section 4. INTEREST

Section 5. REGISTRATION, TRANSFER, AND EXCHANGE;
AUTHENTICATION; BOOK-ENTRY-ONLY SYSTEM

(a) Paying Agent/Registrar

(b) Registration Books

(c) Ownership of Bonds

(d) Payment of Bonds and Interest

(e) Authentication

(f) Transfer, Exchange, or Replacement

(g) Substitute Paying Agent/Registrar

(h) Book-Entry-Only System

(i) Successor Securities Depository; Transfers Outside
Book-Entry-Only System

(j) Payments to Cede & Co.

(k) Notices of Redemption and Defeasance

Section 6.	FORM OF BONDS
Section 7.	ESTABLISHMENT OF FINANCING SYSTEM AND ISSUANCE OF PARITY DEBT
Section 8.	SECURITY AND PAYMENTS
Section 9.	PAYMENTS
Section 10.	DAMAGED, MUTILATED, LOST, STOLEN, OR DESTROYED BONDS
	(a) Replacement Bonds
	(b) Application for Replacement Bonds
	(c) Payment in Lieu of Replacement
	(d) Charge for Issuing Replacement Bonds
	(e) Authority for Issuing Replacement Bonds
Section 11.	AMENDMENT OF SUPPLEMENT
	(a) Amendments Without Consent
	(b) Amendments With Consent
	(c) Notice
	(d) Receipt of Consents
	(e) Effect of Amendments
	(f) Consent Irrevocable
	(g) Ownership
Section 12.	COVENANTS REGARDING TAX-EXEMPTION
Section 13.	SEVENTH SUPPLEMENT TO CONSTITUTE A CONTRACT; EQUAL SECURITY
Section 14.	SEVERABILITY OF INVALID PROVISIONS
Section 15.	PAYMENT AND PERFORMANCE ON BUSINESS DAYS
Section 16.	LIMITATION OF BENEFITS WITH RESPECT TO THE SEVENTH SUPPLEMENT
Section 17.	CUSTODY, APPROVAL, BOND COUNSEL'S OPINION, CUSIP NUMBERS, PREAMBLE, AND INSURANCE
Section 18.	REFUNDING OF REFUNDED OBLIGATIONS; ESCROW AGREEMENT
Section 19.	APPLICATION OF BOND PROCEEDS

Section 20.	FURTHER PROCEDURES
Section 21.	DTC LETTER OF REPRESENTATIONS
Section 22.	REPEAL OF CONFLICTING RESOLUTIONS; RATIFICATION OF CONTINUANCE OF COMMERCIAL PAPER NOTE PROGRAM.....
Section 23.	OFFICIAL STATEMENT
Section 24.	CREDIT AGREEMENT
Section 25.	PUBLIC NOTICE
EXHIBIT A	- DEFINITIONS
EXHIBIT B	- FORM OF BONDS
EXHIBIT C	- CONTINUING DISCLOSURE OF INFORMATION
EXHIBIT D	- SERIES 1998C TUITION REVENUE BOND PROJECTS SERIES 1998D REVENUE BOND PROJECTS

**SEVENTH 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, and August 14, 1997 (referred to herein as the "Master Resolution"); and

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

WHEREAS, the Master Resolution establishes the Revenue Financing System 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 through Sixth 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 to (i) provide permanent financing for facilities and improvements financed with the proceeds of some of its outstanding Revenue Financing System Commercial Paper Notes, Series A (the "Refunded Obligations") and (ii) finance the cost of further facilities and improvements of the Members of the Revenue Financing System; and

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

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

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 Seventh Supplement, the terms used in this Seventh 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 Seventh Supplement attached hereto and made a part hereof.

Section 2. AMOUNT, PURPOSE, AND DESIGNATION OF THE BONDS. (a) The Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1998C", are hereby authorized to be issued and delivered in the maximum aggregate principal amount of \$46,680,000, FOR THE PURPOSE OF (i) FINANCING AND REFINANCING THE COSTS OF ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING THE PROPERTY AND FACILITIES OF THE MEMBERS OF THE REVENUE FINANCING SYSTEM SET FORTH IN EXHIBIT D-1 PURSUANT TO SECTION 55.1722 OF THE TEXAS EDUCATION CODE BY (A) REFUNDING THE AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES, SERIES A ISSUED FOR SUCH PURPOSES WHICH ARE OUTSTANDING ON THE DATE OF EXECUTION OF THE BOND PURCHASE CONTRACT AUTHORIZED IN SECTION 3(c) AND (B) PROVIDING FOR THE COST OF ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING SUCH PROPERTY AND FACILITIES NOT FINANCED BY THAT TIME WITH THE PROCEEDS OF THE COMMERCIAL PAPER NOTES, AND (ii) PAYING THE COSTS RELATED THERETO.

(b) The Board's "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM BONDS, SERIES 1998D", are hereby authorized to be issued and delivered in the maximum aggregate principal amount of \$111,820,000, FOR THE PURPOSE OF (i) FINANCING AND REFINANCING THE COSTS OF ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING THE PROPERTY AND FACILITIES OF THE MEMBERS OF THE REVENUE FINANCING SYSTEM SET FORTH IN EXHIBIT D-2 BY (A) REFUNDING THE AGGREGATE PRINCIPAL AMOUNT OF THE BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM REVENUE FINANCING SYSTEM COMMERCIAL PAPER NOTES, SERIES A ISSUED FOR SUCH PURPOSES WHICH ARE OUTSTANDING ON THE DATE OF EXECUTION OF THE BOND PURCHASE CONTRACT AUTHORIZED IN SECTION 3(c) AND (B) PROVIDING FOR THE COST OF ACQUIRING, PURCHASING, CONSTRUCTING, IMPROVING, ENLARGING, AND EQUIPPING SUCH PROPERTY AND FACILITIES NOT FINANCED BY THAT TIME WITH THE PROCEEDS OF THE COMMERCIAL PAPER AND (ii) 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, 2019, serially or otherwise on the dates, in the years and in the principal amounts, respectively, and dated, all as set forth in the Award Certificate of the U.T. System Representative.

(b) Award Certificate. As authorized by Vernon's Texas Civil Statutes Article 717q, as amended, the U.T. System Representative is hereby authorized, appointed, and designated to act on behalf of the Board in selling and delivering the Bonds of each Series and carrying out the other procedures specified in this Resolution, including determining and fixing the date of the Bonds of each Series, any additional or different designation or title by which the Bonds of each 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 the Bonds of each Series, the aggregate principal amount of Current Interest Bonds and Capital Appreciation Bonds of each Series, the rate of interest to be borne by each 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 U.T. System Representative delivered to the Executive Secretary to the Board (the "Award Certificate"); provided that (i) the price to be paid for the Bonds of each Series shall not be less than 95% of the aggregate original principal amount thereof plus accrued interest thereon from its date to its delivery, and (ii) none of the Bonds shall bear interest at a rate greater than 8% per annum or in excess of the maximum rate allowed by law. It is further provided, however, that, notwithstanding the foregoing provisions, the Bonds of a Series shall not be delivered unless prior to delivery, the Bonds of such Series 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 Vernon's Texas Civil Statutes Article 717q, as amended. In addition to the information set forth above, the Award Certificate shall also specify the aggregate principal amount of Commercial Paper Notes outstanding with respect to the projects listed in Exhibits D-1 and D-2 as of the date of the execution of the Bond Purchase Contract authorized in (c) below. The Award Certificate is hereby incorporated in and made a part of this Resolution and shall be filed in the minutes of the Board as a part of this Seventh 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 Seventh Supplement to be sold through a negotiated sale pursuant to the procedures set forth herein. Smith Barney Inc. is hereby designated the senior managing underwriter for the Bonds. The U.T. System 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 U.T. System 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 U.T. System 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 Seventh Supplement is adopted with such changes as are acceptable to the U.T. System Representative, including those covered by Sections 20 and 23 below.

(d) Continuing Disclosure. (i) Annual Reports. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year, financial information and operating data with respect to The University of Texas System of the general type included in the Official Statement dated _____, 1998, relating to the Bonds 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 and Faculty and Employees" and in Appendix C to such Official Statement, Financial Statements of The University of Texas System. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit C 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 audited financial statements are not prepared for any Fiscal Year and audited financial statements are prepared with respect to the State of Texas for such Fiscal Year, the Board shall provide, or cause to be provided, the audited financial statements of the State of Texas for the applicable Fiscal Year to each NRMSIR and any SID within six months after the end of said Fiscal Year or as soon thereafter as such audited financial statements become available from the State Auditor of the State of Texas. Any such audited financial statements of the State of Texas so provided shall be prepared in accordance with generally accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law.

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 Seventh 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(d) 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 Seventh 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 Seventh Supplement for purposes of any other provision of this Seventh 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 Seventh 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.

(e) 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 Seventh Supplement and as determined by the U.T. System Representative as provided herein, with such changes and additions as are required to be consistent with the terms and provisions shown in the Award 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 Award Certificate to their respective dates of maturity at the rates set forth in the Award 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 Award Certificate (the "Compounding Dates") commencing on the date set forth in the Award 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 Award Certificate. Attached to the Award 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 Award 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. Chase Bank of Texas, N.A. in Austin, Texas, is hereby appointed the Paying Agent/Registrar for each Series of Bonds. The U.T. System 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh Supplement shall constitute one of the Bonds for all purposes of this Seventh 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 Seventh Supplement there shall be printed an Authentication Certificate, in the form set forth in Exhibit B to this Seventh 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 U.T. System Representative. Pursuant to Vernon's Texas Civil Statutes Article 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 Seventh 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 after it is selected for redemption prior to maturity. 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 Seventh 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 Seventh 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 Seventh Supplement, and a certified copy of this Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 determines to discontinue the use of the Book-Entry-Only System through DTC or DTC determines to discontinue providing its services with respect to the 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 each 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 each 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 Seventh Supplement.

(j) Payments to Cede & Co. Notwithstanding any other provision of this Seventh 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 Board 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 Seventh 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 Seventh Supplement and any Award Certificate.

Section 7. ESTABLISHMENT OF FINANCING SYSTEM AND ISSUANCE OF PARITY DEBT. 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 Seventh 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 Seventh 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. (a) Immediately after the delivery of the Bonds the Board shall deposit all accrued interest received from the sale and delivery of each Series of Bonds to the credit of a special account to be held to pay interest on such Series of Bonds on the first interest payment date.

(b) 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 Award 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 Seventh Supplement equally and proportionately with any and all other Bonds duly issued under this Seventh Supplement.

(e) Authority for Issuing Replacement Bonds. In accordance with Section 6 of Vernon's Texas Civil Statutes Article 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 Seventh Supplement for Bonds issued in exchange and replacement for other Bonds.

Section 11. AMENDMENT OF SUPPLEMENT. (a) Amendments Without Consent. This Seventh 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 Seventh 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 Seventh Supplement;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in this Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh 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 Seventh Supplement pursuant to the provisions of this Section, this Seventh 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 Seventh 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. (a) 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:

(i) 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 Seventh 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;

(ii) 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;

(iii) 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;

(iv) 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;

(v) 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;

(vi) 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;

(vii) 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

(viii) 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 .

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 Obligations 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 U.T. System 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.

(b) The Board covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 2 of this Seventh Supplement on its books and records by allocating proceeds to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the purposes for which the Bonds are issued have been accomplished. The foregoing notwithstanding, the Board shall not expend sale proceeds or investment earnings thereon more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds, or (2) the date the Bonds are retired, unless the Board obtains an opinion of nationally-recognized bond counsel that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the Board shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(c) The Board covenants that the property financed with the proceeds of the Refunded Obligations or the Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Board of cash or other compensation, unless the Board obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the Board shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

Section 13. SEVENTH 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 Seventh 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 Seventh Supplement by the Board and the covenants and agreements set forth in this Seventh 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 Seventh 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 Seventh 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 SEVENTH SUPPLEMENT. With the exception of the rights or benefits herein expressly conferred, nothing expressed or contained herein or implied from the provisions of this Seventh 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 Seventh Supplement or any covenant, condition, stipulation, promise, agreement, or provision herein contained. This Seventh 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 U.T. System 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 U.T. System 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 Seventh Supplement is hereby adopted and made a part of this Seventh 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 AGREEMENT.

That concurrently with the delivery of the Bonds, the U.T. System Representative shall cause to be deposited an amount from the proceeds from the sale of the Bonds with Bankers Trust Company, as Escrow Agent, sufficient, together with other legally available funds of the Board, to provide for the refunding and defeasance of the Refunded Obligations in accordance with Section 7A of Vernon's Ann. Tex. Civ. St. Article 717k, as amended. The U.T. System 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 Seventh Supplement is adopted. The U.T. System Representative is further authorized and directed to apply and there is hereby appropriated such moneys of the Board as are necessary to fund the Escrow Fund to be established by the Escrow Agreement with amounts sufficient to provide for the defeasance of the Refunded Obligations on the date of delivery of the Bonds.

Section 19. APPLICATION OF BOND PROCEEDS. (a) Proceeds from the sale of the Bonds shall, promptly upon receipt thereof, be applied by the U.T. System Representative as follows:

- (i) accrued interest for the Bonds shall be deposited as provided in Section 9;
- (ii) an amount sufficient to accomplish the purposes of Section 18 shall be so applied;
- (iii) an amount sufficient to pay the cost of acquiring, purchasing, constructing, improving, enlarging, and equipping the improvements being financed with the proceeds of the Bonds shall be deposited in the Board's accounts to be used for such purposes; and
- (iv) any proceeds from the sale of Bonds remaining after the deposits provided for in clauses (i) through (iii) above, shall be applied to pay expenses arising in connection with the issuance of the Bonds and the refunding of the Refunded Obligations.

Any sale proceeds of the Bonds remaining after making all deposits and payments provided for above shall be applied to the payment of principal of and interest on the Bonds.

Section 20. FURTHER PROCEDURES. The Executive Committee, each member of the Executive Committee, each U.T. System 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 Seventh Supplement, the Escrow Agreement, the Bonds, the sale and delivery of the Bonds and fixing all details in connection therewith, and the Paying Agent/Registrar Agreement, to approve the Official Statement, or supplements thereto, in connection with the Bonds, and to affect the amendment of the Swap Agreement and the execution and delivery of confirmations thereunder. 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. Notwithstanding anything to the contrary contained herein, while the Bonds are subject to DTC's Book-Entry-Only System and to the extent permitted by law, the Blanket Letter of Representation is hereby incorporated herein and its provisions shall prevail over any other provisions of this Seventh Supplement in the event of conflict. The U.T. System Representative is authorized to submit an application to the Texas Bond Review Board requesting the approval of the issuance of the Bonds. In addition, the U.T. System Representative, General Counsel, and Bond Counsel are hereby authorized to approve, subsequent to the date of the adoption of this Seventh Supplement, any amendments to the above named documents, and any technical amendments to this Seventh Supplement as may be required by Fitch ICBA, Inc., Moody's Investors Service, or Standard & Poor's Ratings Services, as a condition to the granting of a rating on the Bonds or as required by the office of the Texas Attorney General as a condition to the approval of the Bonds.

Section 21. DTC LETTER OF REPRESENTATIONS. The U.T. System Representative is authorized to implement the Book-Entry-Only System of Bond registration with respect to the Bonds pursuant to the Blanket Letter of Representation with DTC. The U.T. System Representative is authorized and directed to enter into any amendments to the Blanket Letter of Representation with DTC necessary to implement the Book-Entry-Only System.

Section 22. REPEAL OF CONFLICTING RESOLUTIONS; RATIFICATION OF CONTINUANCE OF COMMERCIAL PAPER NOTE PROGRAM. All resolutions and all parts of any resolutions which are in conflict or are inconsistent with this Seventh Supplement are hereby repealed and shall be of no further force or effect to the extent of such conflict or inconsistency. The Amended and Restated First Supplemental Resolution to the Master Resolution, authorizing the Revenue Financing System Commercial Paper Notes, Series A (the "First Supplement") is hereby ratified and reaffirmed and it is recognized that notes will be issued thereunder in the future pursuant to, in accordance with, and subject to the conditions contained in the First Supplement.

Section 23. OFFICIAL STATEMENT. The draft Official Statement relating to the Bonds submitted to the Board at the meeting at which this Seventh Supplement is adopted is hereby approved and the U.T. System Representative is authorized and directed to provide for and oversee the preparation of a preliminary and final official statement in connection with the issuance of the

Bonds, and to approve such official statement and deem it final in compliance with the Rule and to provide it to the purchasers of the Bonds in compliance with such Rule.

Section 24. CREDIT AGREEMENT. (a) Pursuant to the Interest Rate Swap Agreement dated as of April 1, 1994, between the Board and Goldman Sachs Capital Markets, L.P. (the "Swap Agreement"), the U.T. System Representative may accept and execute confirmations under and as defined in the Swap Agreement when, in his or her judgment, the execution of such confirmation (i) would reduce the net interest to be paid by the Board with respect to the Bonds or any other Parity Debt over the term of the confirmation or (ii) given the market conditions at the time, is in the best interest of the Board. When such confirmations are executed on behalf of the Board, the costs thereof and the amounts payable thereunder shall be paid out of Pledged Revenues. The Swap Agreement constitutes a "Credit Agreement" as defined in the Master Resolution and Article 717q, Vernon's Texas Civil Statutes and constitutes Parity Debt under the Master Resolution.

(b) The U.T. System Representative is hereby authorized to enter into an amendment to the Swap Agreement to allow confirmations thereunder to be issued and entered into with respect to the Bonds or to any other Parity Debt and to make such other amendments as in the judgment of the U.T. System Representative and Bond Counsel are necessary to allow the Board to achieve the benefits of the Swap Agreement.

Section 25. 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 Seventh Supplement was adopted; that this Seventh 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.

EXHIBIT A DEFINITIONS

As used in this Seventh 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, Vernon's Texas Civil Statutes, 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 Seventh Supplement.

The term "Award Certificate" shall mean the certificate executed by the U.T. System Representative in connection with each Series of Bonds which establishes the terms of the Series of Bonds pursuant to Section 3 of this Seventh Supplement.

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

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

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 Award Certificate.

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 Seventh 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 Award Certificate 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 Seventh 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 Award Certificate.

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 "Seventh Supplement" shall mean this Seventh 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, and August 14, 1997.

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 Seventh 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 Obligations" 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 Bonds.

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 Seventh 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 "U.T. System 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, and the Assistant Vice Chancellor for Finance, or such other officer or employee of The University of Texas System authorized by the Board to act as a U.T. System Representative.

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 1998_

[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 Chase Bank of Texas, N.A. in Austin, 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 1998_

[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 Chase Bank of Texas, N.A. in Austin, 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 Seventh Supplemental Resolution to the Master Resolution adopted _____, 1998, and pursuant to the Master Resolution referred therein (collectively, the "Bond Resolution") for the purpose of (i) refunding \$ _____, in aggregate principal amount of the Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A issued for the purpose of acquiring, purchasing, constructing, improving, enlarging, and equipping the property and facilities of the Members of the Revenue Financing System pursuant to Section 55.1722 of the Texas Education Code, (ii) purchasing, constructing, improving, enlarging, and equipping the property and facilities of the Members of the Revenue Financing System pursuant to Section 55.1722 of the Texas Education Code, 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").]

**This Bond is one of a Series of bonds authorized in the aggregate principal amount of \$ _____ pursuant to a Seventh Supplemental Resolution to the Master Resolution adopted _____, 1998, and pursuant to the Master Resolution referred therein (collectively, the "Bond Resolution") for the purpose of (i) refunding \$ _____, in aggregate principal amount of the Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A, (ii) purchasing, constructing, improving, enlarging, and equipping the property and facilities of the 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").]

* For inclusion in the Series 1998C Bonds.

** For inclusion in the Series 1998D 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)

ASSIGNMENT

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common
TEN ENT -- as tenants by the entireties
JT TEN -- as joint tenants with right
of survivorship and not as
tenants in common

UNIF GIFT MIN ACT--
____ Custodian ____
(Cust) (Minor)
under Uniform Gifts to
Minors Act ____
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Please insert Social Security or
Other Identification Number of Assignee

/ _____ /

(Name and Address of Assignee)

the within Bond and does hereby irrevocably constitutes and appoints _____
to transfer said Bond on the books kept for registration thereof with full power of substitution in
the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: The signature to this assignment must correspond with the name as it appears upon the
face of the within Bond in every particular, without alteration or enlargement or any change
whatever; and

NOTICE: Signature(s) must be guaranteed by the Securities Transfer Association signature
guarantee program.

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.

CHASE BANK OF TEXAS, N.A.,
Austin, Texas
Paying Agent/Registrar

Dated:

Authorized Representative

**[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.

EXHIBIT C

CONTINUING DISCLOSURE OF INFORMATION

Accounting Principles

The financial statements of The University of Texas System will be prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements, and follow to the extent practical, 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, or such other accounting principles as the Board may be required to employ from time to time pursuant to state law or regulation.

EXHIBIT D-1

**THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds, Series 1998C
Tuition Revenue Bond Projects**

<u>Campus</u>	<u>Project</u>	<u>Par Amount</u>
Arlington	Reno of CBA Phase II (#301-920)	7,630,000
Arlington	E&G Space Reno (#301-957)	600,000
Dallas	Callier Center (#302-945)	1,900,000
El Paso	U&R Bldg Support (#201-969)	2,400,000
Permian Basin	Thermal Energy (#501-935)	5,800,000
Permian Basin	Visual Arts (#501-940a)	4,150,000
Tyler	Palestine Extension	500,000
Tyler	Campus Upgrade & Equip (#802-933)	3,700,000
SMC - Dallas	NC Phase III (#303-859)	13,000,000
SMC - Dallas	NC Phase III - finish Out (#303-952)	<u>7,000,000</u>
	Total	<u>46,680,000</u>

EXHIBIT D-2

**THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds, Series 1998D
Revenue Bond Projects**

<u>Campus</u>	<u>Project</u>	<u>Par Amount</u>
Arlington	Hazardous Waste (#301-838)	303,000
Austin	McDonald Housing (#102-851)	600,000
Austin	Eastside Grandstand Exp (#102-862)	32,000,000
Austin	Lower Football field (#102-865)	2,700,000
Austin	Parking Garage #5 (#102-863)	9,700,000
Austin	Chilling Station Exp (#102-917b) [5]	4,500,000
Austin	Parking Garage #4 (#102-919)	8,500,000
Austin	SSB - Capitalized Interest (#102-767)	680,000
Dallas	Activities Center (#302-852)	11,300,000
Dallas	Campus Equip & Rehab (#302-904)	900,000
El Paso	Capital Renewal (#201-850)	625,000
El Paso	Nursing / Health Sciences (#201-910)	1,050,000
Pan Am	Existing Science Reno (#901-908)	8,015,000
San Antonio	Downtown Building II (#401-855)	18,900,000
Galveston	Reno of McCollough (#601-839)	<u>5,319,000</u>
	Total	<u>105,092,000</u>

NEW ISSUE—BOOK-ENTRY-ONLY

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.

\$158,500,000*
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
Revenue Financing System Bonds
\$ 46,680,000* Series 1998C
\$111,820,000* Series 1998D



Dated: _____, 1998

Due: August 15, as shown on inside of cover

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 Seventh Supplemental Resolution of the Board which provides for issuance of the Bonds (collectively, the "Resolution"). **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, financing the cost of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities of certain Members of the Revenue Financing System, and paying the costs of issuing the Bonds. See "PLAN OF FINANCING".

Interest on the Bonds will accrue from _____, 1998 and will be payable February 15 and August 15 of each year, commencing February 15, 1999, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

MATURITY SCHEDULE
 See Inside of Cover

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

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 Chase Bank of Texas, N.A., Austin, Texas, 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 offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. The legal opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix D, "Form of Bond Counsel Opinion"). Certain legal matters will be passed upon for the Underwriters by Vinson & Elkins L.L.P., Austin, Texas as Counsel to the Underwriters. It is expected that the Bonds will be tendered for delivery to the initial purchaser(s) through DTC on or about _____, 1998.

SALOMON SMITH BARNEY
A.G. EDWARDS & SONS, INC
ARTEMIS CAPITAL GROUP, INC.
DAIN RAUSCHER INCORPORATED
ESTRADA HINOJOSA & COMPANY, INC.
FIRST SOUTHWEST COMPANY

EDWARD D. JONES & Co., L.P.
LEGG MASON WOOD WALKER, INC.
LEHMAN BROTHERS.
SAMUEL A. RAMIREZ & CO., INC.
THE CHAPMAN COMPANY
WALTON JOHNSON & COMPANY

*Preliminary, subject to change

time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE

SERIES 1998C

Maturity August 15	Principal Amount *	Interest Rate	Price or Yield	Maturity August 15	Principal Amount*	Interest Rate	Price or Yield
	\$	%			\$		%

\$ _____ % Term Bonds due August 15, _____ Priced to Yield _____ %

(*plus accrued interest from _____, 1998)

SERIES 1998D

Maturity August 15	Principal Amount *	Interest Rate	Price or Yield	Maturity August 15	Principal Amount*	Interest Rate	Price or Yield
	\$	%			\$		%

\$ _____ % Term Bonds due August 15, _____ Priced to Yield _____ %

(*plus accrued interest from _____, 1998)

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

OFFICERS

Donald L. Evans, Chairman
Rita Crocker Clements, Vice-Chairman
Tom Loeffler, Vice-Chairman
Francie A. Frederick, Executive Secretary

MEMBERS

Terms Expire February 1, 1999

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

Terms Expire February 1, 2001

Rita Crocker Clements	Dallas
Donald L. Evans	Midland
Tom Loeffler	San Antonio

Terms Expire February 1, 2003

Patrick C. Oxford	Houston
A.W. "Dub" Riter	Tyler
A.R. (Tony) Sanchez, Jr.	Laredo

SYSTEM ADMINISTRATION

Dr. William H. Cunningham, Chancellor
Charles B. Mullins, M.D., Executive Vice Chancellor for Health Affairs
R. D. Burck, Executive Vice Chancellor for Business Affairs
Edwin R. Sharpe, Vice Chancellor for Academic Affairs
Ray Farabee, Vice Chancellor and General Counsel
Michael Millsap, Vice Chancellor for Governmental Relations
Shirley Bird Perry, Vice Chancellor for Development and External Relations
Pamela K. Clayton, 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. Larry R. Faulkner, 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. Nevarez, 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. Rodney H. Mabry, President, The University of Texas at Tyler
Kern Wildenthal, M.D., Ph.D., President, The University of Texas Southwestern Medical Center at Dallas
John D. Stobo, 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
John Mendelsohn, M.D., President, The University of Texas
M.D. Anderson Cancer Center at Houston
Ronald F. Garvey, M.D., Director, The University of Texas Health Center at Tyler

SALE AND DISTRIBUTION OF THE BONDS

Use of Official Statement

No dealer, broker, salesman or other person has been authorized by the Board to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinion herein 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 since the date hereof. This Official Statement is submitted in connection with the sale of securities referred to herein and in no instance may this Official Statement be reproduced or used for any other purpose.

Certain information set forth in this Official Statement has been furnished by the Board and other sources which are believed to be reliable, but such information is not to be construed as a representation by the Underwriters. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds. Neither the Board nor the underwriters shall be responsible for the selection or the correctness of the CUSIP numbers.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

Marketability

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for the registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

TABLE OF CONTENTS

INTRODUCTION.....	ABSENCE OF LITIGATION.....
PLAN OF FINANCING	CONTINUING DISCLOSURE OF
Authority for Issuance of the Bonds	INFORMATION.....
Purpose for Issuance of Bonds.....	Continuing Disclosure Undertaking
Refunded Notes.....	of the Board.....
SOURCES AND APPLICATION OF FUNDS	Availability of Information from NRMSIRs
DESCRIPTION OF THE BONDS.....	and SID
General.....	Limitations and Amendments
Redemption	Compliance with Prior Undertakings
The Paying Agent/Registrar	LEGAL MATTERS
Book-Entry-Only System.....	TAX MATTERS
Security for the Bonds.....	Opinion.....
Supplemental Resolution.....	Federal Income Tax Accounting Treatment
DESCRIPTION OF THE REVENUE	of the Original Issue Discount.....
FINANCING SYSTEM	Collateral Federal Income Tax
ANNUAL DEBT SERVICE REQUIREMENTS.....	Consequences.....
GENERAL DESCRIPTION OF THE	State, Local and Foreign Taxes
UNIVERSITY OF TEXAS SYSTEM	LEGAL INVESTMENTS IN TEXAS
Background and History	REGISTRATION AND QUALIFICATION
Coordinating Board.....	OF BONDS FOR SALE.....
Board of Regents.....	LEGAL OPINIONS AND
Administration.....	NO-LITIGATION CERTIFICATE.....
Component Institutions	VERIFICATION OF MATHEMATICAL
General Academic Institutions	COMPUTATIONS.....
Health Institutions	RATINGS.....
Enrollment.....	UNDERWRITING.....
Faculty and Employees	OTHER MATTERS
FINANCIAL MANAGEMENT OF THE	GLOSSARY OF TERMS.....
UNIVERSITY OF TEXAS SYSTEM	SUMMARY OF THE MASTER
Financial Statements	RESOLUTION.....
Current Funds.....	FINANCIAL STATEMENTS OF THE
Fund Balances	UNIVERSITY OF TEXAS SYSTEM
Permanent University Fund.....	FORM OF BOND COUNSEL OPINION.....
Investment Policy and Procedures	
Capital Improvements Planning	
and Authorization.....	
Debt Management and Anticipated	
Financing.....	
Insurance	
Retirement Plans	
Year 2000.....	

OFFICIAL STATEMENT

relating to

\$158,500,000 *
BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

Revenue Financing System Bonds
\$ 46,680,000 * Series 1998C
\$111,820,000 * Series 1998D

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 1998C (the "Series 1998C Bonds") and Series 1998D (the "Series 1998D Bonds") and together with the Series 1998C 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 1997 Fall Semester, the University System had preliminary total enrollment of 140,225 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, as amended, and Articles 717k and 717q, Vernon's Annotated Texas Civil Statutes, as amended. The Bonds are issued as Parity Debt pursuant to the Master

*Preliminary, subject to change

Resolution and a Seventh Supplemental Resolution to the Master Resolution (also referred to herein as the "Supplemental Resolution") adopted by the Board on August 13, 1998 . The Board has previously issued its Revenue Financing System Refunding Bonds, Series 1991A, 1991B and 1991C, its Revenue Financing System Bonds, Series 1995A, its Revenue Financing System Bonds, Series 1996A and 1996B, and its Revenue Financing System Bonds, Series 1998A and 1998B which are currently outstanding in the aggregate principal amount of \$643,985,000 , 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 \$350,000,000 (the "Notes"). As of July 1, 1998 , \$146,521,000 in aggregate principal amount of such commercial paper notes were outstanding. A portion of the currently outstanding Notes 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 1998C Bonds and the Series 1998D Bonds are each being issued for the purpose of (i) currently refunding a portion of the Board's Revenue Financing System Commercial Paper Notes, Series A in the aggregate principal amount of \$ _____ (the "Refunded Notes"), (ii) financing the cost of acquiring, purchasing, constructing, improving, enlarging and equipping the property and facilities of certain Members of the Revenue Financing System and (iii) paying the costs of issuance of the Bonds.

Refunded Notes

The Refunded Notes and interest due thereon are to be paid on their scheduled maturity dates from funds to be deposited with Bankers Trust Company of New York, as Escrow Agent, pursuant to an Escrow Agent 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 Bonds, together with other available funds, if any, will be deposited with the Escrow Agent into a separate Escrow Fund to pay the principal of and interest on the Refunded Notes. 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 interest on the Refunded Notes 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 _____, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to 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.

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 Notes in accordance with applicable laws and the terms of the authorizing resolution pursuant to which the Refunded Notes were issued. It is the opinion of Bond Counsel that, as a result of such defeasance, the Refunded Notes 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	Series 1998C	Series 1998D	Total
Par Amount of Bonds	\$	\$	\$
Original Issue Discount Premium			
System Contribution			
Accrued Interest			
Total Sources of Funds	\$ _____	\$ _____	\$ _____
Applications of Funds			
Escrow Fund	\$	\$	\$
Project Costs			
Debt Service Fund			
Underwriters' Discount			
Costs of Issuance			
Total Uses of Funds	\$ _____	\$ _____	\$ _____

DESCRIPTION OF THE BONDS

General

The Bonds of each Series will bear interest from their dated date at the rates, and will mature on the dates and in the amounts, set forth on the inside cover page to this Official Statement, and will be subject to the redemption provisions set forth below. Interest on the Bonds of each Series will be 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 _____. Principal of and interest on the Bonds are payable by the Paying Agent/Registrar for the Bonds, initially Chase Bank of Texas, N.A., Austin, Texas, at the times and places and in the manner specified on the cover 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 or of 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, 2008* or on any date thereafter, the Bonds of each Series scheduled to mature on August 15, 2009* , 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 of equal to the principal amount thereof, plus accrued interest to the date of 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").

Mandatory Sinking Fund Redemption.. Any mandatory sinking fund redemption requirements for the Bonds will be set forth in the Supplement in this Official Statement. The Series _____ Bonds scheduled to mature on August 15, _____ are subject to mandatory sinking fund redemption prior to their maturity and shall be redeemed by the Board, in part, prior to their scheduled maturity, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, on the dates, and in the principal amounts set forth below. 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).

Maturity

Principal Amount

Further, the principal amount of such 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 and maturity, 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 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 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

1

Paying Agent/Registrar shall send a second notice of redemption to registered owners of Bonds

1 Preliminary, subject to change.

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, the Board will either appoint a successor securities depository or 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 of 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

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, and August 14, 1997. 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. All of the institutions currently constituting components of the University System have been included as Members of the Revenue Financing System. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM – Debt Management and Anticipated

Financings – Financing Programs – Revenue Financing System” and “APPENDIX B, SUMMARY OF THE MASTER RESOLUTION—Changes in Membership of the Revenue Financing System”.

The amendments to the Master Resolution approved by the Board on August 14, 1997, were made to conform the Revenue Financing System to the amendments made to the Texas Education Code by Senate Bill 1907 which was enacted by the Texas Legislature in the summer of 1997. The amendments are reflected in the descriptions of the provisions of the Master Resolution contained in this Official Statement. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Sources of Revenues—Tuition and Fees".

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, 1997, were \$3,900.3 million. The University System has calculated that at least \$1,840.5 million of the unrestricted current funds revenues for the fiscal year ended August 31, 1997, 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.

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⁾

Fiscal Year	Series 1998C Bonds		Series 1998D Bonds		Total and Interest on the Bonds	Principal and Outstanding Bonds	Total Interest on Debt Service
	Annual	Principal	Interest	Principal			
Ending 8/31							
1998	\$	\$	\$	\$	\$	\$62,456,135	\$
1999						66,658,011	
2000						65,166,670	
2001						63,574,405	
2002						62,088,936	
2003						61,398,309	
2004						60,245,173	
2005						53,758,323	
2006						51,960,638	
2007						45,664,812	
2008						44,095,925	
2009						44,092,273	
2010						44,102,460	
2011						44,089,811	
2012						41,907,649	
2013						41,917,078	
2014						36,442,335	
2015						36,966,985	
2016						36,978,730	
2017						14,957,750	
2018						9,331,050	
2019	\$	\$	\$	\$	\$	\$	\$
TOTAL	\$	\$	\$	\$	\$	\$987,853,458	\$

⁽¹⁾ Does not include debt service on (A) the Refunded Notes or the remaining Parity Debt obligations currently outstanding in the form of Revenue Financing System Commercial Paper Notes, Series A, or (B) the Board of Regents of The University of Texas System General Tuition Revenue Refunding Bonds, New Series 1992. 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 those approved by the State Legislature and 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 Health Affairs, the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic 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 Chancellor or the Executive Vice Chancellor for Health Affairs and meet on a quarterly basis in Austin. The Executive Vice Chancellor for Business Affairs and the chief business officers at each component 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 finance, are listed below. All of such officers reside in Austin, the headquarters for the University System.

Dr. William H. Cunningham
Charles B. Mullins, M.D.
R. D. Burck
Edwin R. Sharpe
Pamela K. Clayton

Chancellor
Executive Vice Chancellor for Health Affairs
Executive Vice Chancellor for Business Affairs
Vice Chancellor for Academic Affairs
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.

Charles P. 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.

Edwin R. Sharpe was appointed Vice Chancellor for Academic Affairs on June 1, 1998, after serving as Vice President for Administration and Public Affairs at The University of Texas at Austin since 1984. He also served as Interim President of The University of Texas of the Permian Basin in 1992 and 1993. First employed by The University of Texas at Austin in 1974, Dr. Sharpe held several administrative positions including Executive Director of the office of the Chancellor for The University of Texas System. A Phi Beta Kappa graduate, Dr. Sharpe holds a B.A. with Honors in Economics, a Masters of Business Administration, and a Ph.D. in Higher Education Administration from The University of Texas at Austin.

Pamela K. Clayton joined the University System in 1982 and was named Assistant Vice Chancellor for Finance in January, 1998. As the Assistant Vice Chancellor for Finance, she is responsible for the administration of the debt financing programs for the University System. Ms. Clayton earned a B.B.A. degree from The University of Texas at Austin and an M.B.A. degree from Southwest Texas State University. She achieved the Charter Financial Analyst designation in 1994.

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 58 baccalaureate, 59 master's and 23 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.

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 approximately 48,000 students, the institution offers 303 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 7.5 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 and academic structure under the direction of the University. 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 Texas Legislature has also authorized the University to begin offering limited lower division 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 nationally prominent 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, the University 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 15,000, 85% of whom are from El Paso County. Additionally, over 1,100 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 12,501 students are Hispanic, reflecting the demography of the region.

The University of Texas-Pan American offers one associate's degree, 47 baccalaureate degrees and 34 master's degrees through six academic colleges including Business Administration, Education, Health Sciences and Human Services, Arts & Humanities, Science and Engineering and Social and Behavioral Sciences. The institution also offers a doctorate in Business Administration with a concentration in international business and, jointly with The University of Texas at Austin, offers a doctorate in educational leadership. 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 10 graduate programs, currently serves more than 2,100 students. Its academic structure consists of Arts and Sciences, Business, and Education. Special programs include premedical and prelegal studies and teacher certification. The University has also developed a regional telecommunications network with area public schools and junior colleges.

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 49 undergraduate and 30 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. A new downtown campus, which opened beginning with the fall 1997 semester, offers a wide range of both undergraduate and graduate courses, with an approximate enrollment of 1,980, some of whom also take classes at the main campus.

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. The Texas Legislature has authorized development of an engineering program which has admitted its first students in the fall 1997 semester, has approved the addition of limited lower division programs, and has funded development of an academic center in Longview, Texas.

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 35,000 inpatients and, excluding Texas Department of Criminal Justice inmates treated under a contract, more than 465,300 outpatients annually, including over 68,975 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 5,162 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 935 hospital and outpatient visits per day, 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 1996, the Health Center served patients from 142 of the State's 254 counties and recorded approximately 3,300 admissions and more than 85,753 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⁾				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
The University of Texas at Arlington	23,749	23,202	22,121	20,544	19,286
The University of Texas at Austin ⁽²⁾	48,555	47,957	47,905	48,008	48,857
The University of Texas at Brownsville ⁽³⁾	1,911	2,205	2,459	2,623	2,568
The University of Texas at Dallas	8,640	8,487	9,008	9,378	9,316
The University of Texas at El Paso	16,999	17,188	16,275	15,386	15,176
The University of Texas-Pan American	13,702	13,750	13,360	12,682	12,501
The University of Texas of the Permian Basin	2,219	2,315	2,217	2,193	2,130
The University of Texas at San Antonio	17,097	17,579	17,369	17,547	17,494
The University of Texas at Tyler	3,935	3,987	3,783	3,459	3,390
The University of Texas Southwestern Medical Center at Dallas	1,680	1,700	1,687	1,714	1,602
The University of Texas Medical Branch at Galveston	2,251	2,327	2,249	2,204	2,127
The University of Texas Health Science Center at Houston	3,279	3,183	3,097	3,115	3,089
The University of Texas Health Science Center at San Antonio	<u>2,662</u>	<u>2,790</u>	<u>2,828</u>	<u>2,722</u>	<u>2,689</u>
Total	<u>146,679</u>	<u>146,670</u>	<u>144,358</u>	<u>141,575</u>	<u>140,225</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.

The following are the historical headcount undergraduate admissions figures for the teaching institutions of the University System for the past five Fall Semesters:

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Freshman:					
Applications	34,750	30,834	31,486	31,897	30,363
Acceptances	23,620	23,074	23,493	22,869	24,633
Matriculants	13,788	13,441	14,195	13,541	13,908
Transfers:					
Applications	25,428	28,817	24,448	24,305	25,968
Acceptances	15,827	18,958	16,645	17,311	17,392
Matriculants	12,231	13,408	11,215	12,138	11,416

The following table sets forth, by percentage, a breakdown of the University System's enrollment by residency classification for the past five Fall Semesters:

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
In-State Students	88.1%	87.9%	87.2%	87.9%	87.9%
Out-of-State Students	6.0%	6.1%	6.5%	5.7%	6.1%
Foreign Students	<u>5.9%</u>	<u>6.0%</u>	<u>6.3%</u>	<u>6.4%</u>	<u>6.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Faculty and Employees

The numbers of faculty and employees employed by the component institutions of the University System as of April 30, 1998, the most recent date for which such information is available, are set forth in the following table:

Faculty and Employees

April 30, 1998

General Academic Institutions

Faculty	6,584
All Other Employees	<u>31,407</u>
Subtotal	<u>37,991</u>

Health Institutions

Faculty	5,755
All Other Employees	<u>32,102</u>
Subtotal	<u>37,857</u>

University System Administration

Total	<u>434</u>
	<u>76,282</u>

The quality of the faculty in the University System is evidenced by a wide range of honors, awards and grants. As of December 1, 1997, the faculty of the component institutions within the University System includes: six Nobel Prize Laureates; two Pulitzer Prize Winners; 36 Members of the National Academy of Sciences; 42 Members of the National Academy of Engineering; 39 Members of the American Academy of Arts and Sciences; 21 Members of the American Law Institute; and 29 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 19.31% during the fiscal years 1993 through 1997 from \$707.3 million to \$843.9 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. The Office of Business Affairs includes the Office of Finance, which reports to Pamela K. Clayton, 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. In February 8, 1996, the Board approved a contract for the investment management of all funds under the Board's control and management with The University of Texas Investment Management Company ("UTIMCO"), a non-profit corporation organized under the laws of the State of Texas. On April 23, 1996, UTIMCO received a determination from the Internal Revenue Service that it constitutes a tax-exempt organization described in Section 501(c)(3) of the Code. In taking such action, the Board's existing investment management and operating staff were transferred to UTIMCO. The Board pays UTIMCO an annual fee for investment management services.

Financial Statements

Annually, not later than November 29 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. 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 document 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, 1997, excerpted from the 1997 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, 1997, the Combined Statement of Changes in Fund Balances for the Year Ended August 31, 1997, and the Combined Statement of Current Funds Revenues and Expenditures for the Year Ended August 31, 1997. 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, 1997. 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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Sources of Revenues</u>					
Tuition and Fees	8.39%	8.77%	8.73%	9.67%	10.76%
State Appropriations	38.92	39.56	36.68	35.01	33.39
Gifts, Grants and Contracts.....	4.63	5.46	8.22	12.45	12.48
Available University Fund Income.....	2.95	2.60	2.46	2.27	2.19
Endowment/Investment Income	0.07	0.56	0.41	0.50	0.53
Sales and Services.....	29.70	26.81	25.95	24.80	25.67
Professional Fees	11.55	13.08	14.21	11.69	11.01
Other Interest Income	1.35	1.24	1.62	1.65	1.99
Other Sources.....	<u>2.44</u>	<u>1.92</u>	<u>1.72</u>	<u>1.96</u>	<u>1.98</u>
Total	<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 which permits (i) undergraduate tuition applicable to state residents to be charged up to \$68 per semester credit hour for the 1997-98 academic year, up to \$72 per semester credit hour for the 1998-99 academic year, up to \$76 per semester credit hour for the 1999-2000 academic year, and up to \$80 per semester credit hour for the 2000-01 academic year; and (ii) 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). For the academic year 1997-1998, the Coordinating Board has computed \$248 per semester credit hour for nonresident undergraduate tuition. As stated above, unless it is necessary to meet a debt service obligation, the amount of the Pledged General Tuition charged in any academic year may not exceed the amount of tuition to be charged in that academic year.

Effective August 1, 1997, S.B. 1907 redesignated the building use fees which make up the Pledged General Fees as tuition. The students will no longer be charged a general use fee, and the tuition charges may be increased by the Board by an amount equal to what the general use fee would have been under prior law. The net effect is that the total student charges will not be increased by S.B. 1907.

S.B. 1907 also makes the provisions of the Education Code which allow the Board to set fees, rentals, rates, or other revenue funds of the Board at the level necessary, without limit, to enable the Board to meet its obligations with respect to the payment of debt service on the Parity Debt applicable to the Pledged General Tuition. Thus, notwithstanding the limitations outlined above, for any Parity Debt issued after the effective date of S.B. 1907, the rate of the Pledged General Tuition actually imposed to secure the Parity Debt will not be limited by law or the Resolution.

At the August 14, 1997 meeting, the Board adopted a resolution amending the Master Resolution to take into account the amendments to the Education Code made by S.B. 1907. Among the changes made by such resolution the Board altered the definition of Pledged Revenues for the purpose of supplementing the security for Parity Debt by adding the additional Revenue Funds which S.B. 1907 permits the Board to pledge and altered the rate covenant to have it apply to the increased Pledged General Tuition and the expanded Pledged Revenues defined terms instead of the Pledged General Fee. Notwithstanding the enactment of S.B. 1907 or the amendment of the Master Resolution, the Board will continue to be obligated to comply with the existing covenants of the Master Resolution and the Supplements as long as the Outstanding Parity Debt is outstanding in the event that the amendments do not produce sufficient Pledged Revenues to meet all of the Board's obligations.

The following table sets forth the total of tuition and fees (net of refunds) collected during each of the five fiscal years commencing in 1993 at all component institutions of the University System:

Tuition and Fees (in Million)				
<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$256.5	\$290.4	\$307.9	\$364.3	\$419.7

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, 1997, 33.4% of unrestricted current funds revenues were from State general revenue fund appropriations. The Board has adopted a budget for fiscal year 1998 that includes appropriations from the State general revenue fund of \$1,228 million, which amount constitutes 32.4% of 1998 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 1998-1999 biennium beginning September 1, 1997, which appropriates approximately \$1,228 million for the University System from the general revenue fund for fiscal year 1998 and approximately \$1,239.8 million for fiscal year 1999. These budget and appropriation amounts do not include certain employee benefits which are included in the total state appropriations shown below.

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$1,189.2	\$1,310.5	\$1,293.3	\$1,317.2	\$1,302.5

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>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>	<u>1997⁽¹⁾</u>
\$141.3	\$180.9	\$289.8	\$469.0	\$486.7

⁽¹⁾ The increase for fiscal year 1995 and 1996 were primarily due to contracts between The University of Texas Medical Branch at Galveston and the Texas Department of Criminal Justice for medical treatment of inmates. The contracts were for \$126.6 million and \$213.8 million for fiscal years 1995 and 1996, respectively. The contract for fiscal year 1997 was \$225.9 million. In addition, a reclassification in fiscal year 1997 of approximately \$68.2 million of professional fees to Gifts, Grants and Contracts was recorded to reflect hospital contractual arrangements at U.T. Southwestern Medical Center and the U.T. Health Science Center at Houston.

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$90.0	\$86.3	\$86.7	\$85.4	\$85.4

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 fiscal year 1993, and endowment income and investment income for fiscal years 1994 through 1997.

Endowment/Investment Income
(in Millions)

<u>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>	<u>1997</u>
\$2.0	\$18.4	\$14.5	\$19.0	\$20.6

⁽¹⁾ See "Other Interest Income"

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$907.4	\$888.2	\$915.2	\$934.2	\$1,001.2

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997⁽¹⁾</u>
\$353.0	\$433.2	\$501.1	\$440.6	\$429.6

⁽¹⁾ Professional fees of approximately \$68.2 million for fiscal year 1997 were reclassified as Gifts, Grants and Contract to reflect hospital contractual arrangements at U.T. Southwestern Medical Center and the U.T. Health Science Center at Houston.

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 Programs—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>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>	<u>1997</u>
\$41.2	\$41.1	\$57.2	\$62.0	\$77.5

⁽¹⁾ The increase for fiscal year 1995 was due to a change in the maturity structure of the investments from fiscal year 1994. 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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$74.7	\$63.7	\$60.6	\$73.9	\$77.2

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$3,055.2	\$3,312.7	\$3,526.4	\$3,767.5	\$3,900.3

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 (in Millions)				
<u>1993</u>	<u>1994⁽¹⁾</u>	<u>1995⁽²⁾</u>	<u>1996</u>	<u>1997</u>
\$784.8	\$1,028.7	\$1,521.6	\$1,729.1	\$1,840.5

⁽¹⁾ Includes the Pledged General Tuition, which became a component of Pledged Revenues on October 8, 1993.

⁽²⁾ 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, 1997. 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>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Expenditures						
Education and General Instruction	34.64%	33.46%	34.33%	33.42%	33.20%	32.45%
Research.....	5.40	5.00	4.58	4.16	3.87	3.58
Public Service	1.20	1.33	1.63	1.56	1.62	1.58
Academic Support.....	4.48	4.35	4.11	4.06	4.05	4.00
Student Services.....	1.26	1.33	1.39	1.40	1.60	1.63
Institutional Support	7.46	8.43	8.90	9.00	8.99	10.01
Operations and Maintenance of Plant.	9.39	9.86	8.61	8.12	7.72	7.68
Scholarships and Fellowships.....	1.75	1.77	1.84	1.86	2.11	2.36
Hospitals	26.01	26.39	27.05	29.27	29.19	29.42
Auxiliary Enterprises	6.76	6.45	6.04	5.60	5.50	5.27
Mandatory Transfers ⁽¹⁾	1.65	1.63	1.52	1.55	2.15	2.02
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

⁽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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$1,004.0	\$1,085.7	\$1,126.0	\$1,165.9	\$1,211.3

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$150.1	\$144.8	\$140.2	\$136.0	\$133.7

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$40.1	\$51.5	\$52.6	\$57.0	\$58.8

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$130.5	\$130.0	\$136.6	\$142.2	\$149.2

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$39.9	\$44.0	\$47.3	\$56.2	\$60.9

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$253.0	\$281.4	\$303.1	\$315.6	\$373.5

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$295.9	\$272.3	\$273.6	\$271.2	\$286.8

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$53.0	\$58.2	\$62.8	\$74.1	\$88.2

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>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996⁽¹⁾</u>	<u>1997⁽¹⁾</u>
\$791.9	\$855.5	\$986.1	\$1,024.9	\$1,098.4

⁽¹⁾ Reflects increased expenditures at The University of Texas Medical Branch at Galveston resulting from contracts with the Texas Department of Criminal Justice for medical treatment of inmates. The contracts for fiscal years 1995-1997 were \$126.6 million, \$213.8 million, and \$225.9 million, respectively.

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$193.5	\$191.2	\$188.6	\$193.0	\$196.8

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996⁽¹⁾</u>	<u>1997</u>
\$49.0	\$48.1	\$52.2	\$75.4	\$75.4

⁽¹⁾ Fiscal year 1996 includes \$16.1 million of mandatory transfers for the early redemption of the Austin Building Revenue Bonds, Series 1986.

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$3,001.0	\$3,162.7	\$3,369.1	\$3,511.5	\$3,733.1

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$689.0	\$717.6	\$773.8	\$858.0	\$902.6

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, 1997, 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, other additions and deductions to and from fund balances 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, 1997. 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 Balance
(in Millions)**

<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$770.6	\$867.7	\$989.4	\$1,182.0	\$1,301.7

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 we 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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$388.5	\$426.8	\$437.4	\$494.9	\$572.1

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$100.9	\$108.7	\$114.7	\$119.6	\$124.4

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 Procedures—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>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$1,024.8	\$1,163.2	\$1,295.3	\$1,378.7	\$1,494.8	\$1,650.4

Of the \$1,650.4 million shown for 1997, \$461.0 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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$12.6	\$13.6	\$17.0	\$19.2	\$22.8

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$88.5	\$92.1	\$100.0	\$113.3	\$135.6

A portion of the fund balance for each year shown above represented accrued income attributable to The Texas A&M University System. Of the \$135.6 million balance of the Available University Fund on August 31, 1997, approximately \$16.2 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>1993</u>	<u>1994</u>	<u>1995⁽¹⁾</u>	<u>1996</u>	<u>1997</u>
\$256.3	\$256.5	\$384.4	\$268.3	\$243.8

⁽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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$3.2	\$5.6	\$4.4	\$5.5	\$6.0

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>1993</u>	<u>1994⁽¹⁾</u>	<u>1995</u>	<u>1996⁽²⁾</u>	<u>1997</u>
\$40.7	\$5.2	\$5.2	\$3.7	\$3.5

⁽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.

⁽²⁾ The decline in fiscal year 1996 is the result of the release of certain reserve funds in connection with retirement of the Austin Building Revenue Bonds, Series 1986.

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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$3,758.5	\$3,951.8	\$4,017.5	\$4,379.1	\$4,642.5

At August 31, 1997, gross plant assets totaled \$6,050.6 million. Of this total, 50.6% was in the form of buildings, 27.7% in equipment, 5.7% in library books, 7.4% in construction in progress and 8.6% 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.

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, 1997, the Permanent University Fund contained 2,109,190 acres located in 24 counties in North and West Texas.

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—Management 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>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
\$4,053.4	\$4,222.5	\$4,385.9	\$4,648.4	\$4,984.7

Investment Policy and Procedures

Management of Investments. The Board is responsible for investment of University System funds held outside the State Treasury. In order to enhance the process by which the various Funds' investments are governed and managed, the Board on March 1, 1996 contracted with The University of Texas Investment Management Company ("UTIMCO") to invest funds under its fiduciary control. It is the first investment corporation formed by a public university system and oversees investments in the Permanent University Fund, the Long Term Fund, the Short/Intermediate Fund and other assets. UTIMCO is required to a) recommend investment policy for the Funds, b) determine specific asset allocation targets, ranges and performance benchmarks consistent with each individual Fund's objectives, and c) monitor each Fund's performance against its objectives. UTIMCO must invest the Funds' assets in conformity with investment policy.

At its February 6, 1997 meeting, the Board approved new Investment Policy Statements for the Permanent University Fund, Long Term Fund, Short/Intermediate Term Fund and the Short Term Fund. The new Investment Policy Statements established long-term asset allocations for the Permanent University Fund and the Long Term Fund of 50% to 90% in equities (including domestic and international stocks and alternative asset investments and not more than 50% in fixed income securities. The new Investment Policy Statements also delegate authority to UTIMCO to establish a neutral allocation and a range for each asset class for the Permanent University Fund and the Long Term Fund within the broad policy guidelines described above, with actual allocations to be determined by UTIMCO in response to changes in the outlook for investments. UTIMCO is required to report specific asset allocation policies to the Board. The new Investment Policy Statements restrict asset allocations for the Short/Intermediate Term Fund and the short Term Fund to fixed income in investments only and attempt to control risk through restrictions on maturities and credit quality.

The Investment Policy Statements provide that the primary investment objective of the Permanent University Fund and the Long Term Fund is to preserve the purchasing power of Fund assets and annual distributions by earning an average annual total return after inflation of 5.5% over rolling ten-year periods or longer. Secondary fund objectives are to generate a fund return in excess of (a) the Policy Portfolio benchmarks and (b) in the case of the Long Term Fund, the average median return of the universe of college and university endowments as reported annually by Cambridge Associates and the National Association of College and University Business Officers over rolling five-year periods or longer. The Policy Portfolio benchmarks are established by UTIMCO and are comprised of a blend of asset class indices weighted to reflect Fund asset allocation targets.

The Investment Policy Statements recognize that asset allocations the primary determinant of investment performance. Fund assets may be allocated among cash and cash equivalents, fixed income investments, and broadly defined equities (including alternative assets) in order to achieve the Funds' primary investment objective. The Investment Policy Statements also recognize that the Funds' 5.5% real return objective for long-term funds imply a high allocation to broadly defined equities as high as 85%. Fixed income investments are limited to 50% and 25% for the Permanent

University Fund and Long Term Fund, respectively. The Investment Policy Statements for the Short/Intermediate Term Fund and Short Term Fund restrict asset allocation to fixed income investments only and attempt to control risk through restrictions on maturities and credit quality.

The Long Term Fund. The Long Term Fund ("LTF") serves as a pooled fund for the collective investment of private endowments and other long term funds of the 15 component institutions comprising the University System. The LTF is structured as a mutual fund in which each endowment or account purchases units at the LTF's market value per unit. Cash distributions are paid quarterly, on a per unit basis, directly to each component institution.

As described above, asset allocation within the LTF is the responsibility of UTIMCO and neutral policy allocations are subject to change from time to time based on the economic and investment outlook. The asset classes within the LTF, the long term neutral policy allocation percentage for each asset class and the actual asset allocation percentages as of May 31, 1998 are set forth below.

<u>Asset Class</u>	<u>Neutral Policy Allocation</u>	<u>Percentage Allocation (as of 5/31/98)</u>
Cash and Cash Equivalents	0.0%	(0.0)%
Fixed Income	20.0%	20.0%
Equities	55.0%	74.0%
Alternative Equities ⁽¹⁾	<u>25.0%</u>	<u>6.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

⁽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 or otherwise readily marketable; (ii) alternative illiquid investments, which are generally held through limited partnership interests and include private equity, buyout mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges; and (iii) inflation hedging assets, which include oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates.

As of May 31, 1998, approximately 9.0 % of the investment of LTF funds was managed internally and approximately 91.0 % was managed externally by unaffiliated investment managers. The book value of the LTF as of May 31, 1998 was \$1,919.4 million and the market value was \$2,418.2 million, indicating an unrealized gain on that date of \$498.8 million.

The Short/Intermediate Term Fund. The Short/Intermediate Term Fund ("S/ITF") serves as a pooled investment vehicle for operating funds of The University of Texas System component institutions and System Administration. Operating funds are defined as those with an investment horizon of one to five years. The S/ITF also serves as the sources of a \$350 million self-liquidity facility for The University of Texas System Board of Regents' Revenue Financing System Commercial Paper Notes, Series A. The S/ITF is structured as a mutual fund where participants can transact in units at market value weekly on Wednesdays and the first business day of each month. Its income is either reinvested or distributed to the unitholders monthly at their election. The S/ITF's structure allows for greater economies of scale, enhanced flexibility, and centralized, full-time professional management. The S/ITF's primary investment objective is to generate both income and capital appreciation when consistent with the reasonable preservation of capital and the maintenance of adequate liquidity.

As described above, the new Investment Policy Statement restricts asset allocation for the S/ITF to fixed income investments. Set forth in the table below is a quarterly breakdown of the composition of the S/ITF since August 31, 1996.

<u>Qtr Ending</u>	<u>Cash</u>	<u>Commercial Paper</u>	<u>Govt. & Agencies</u>	<u>Mortgage Backed</u>
8/31/96	7.9%	0.0%	74.9%	17.2%

11/30/96	15.2%	0.0%	68.7%	16.1%
2/28/97	13.5%	0.0%	72.4%	14.1%
5/31/97	13.5%	9.6%	64.8%	12.1%
8/31/97	17.2%	0.0%	73.1%	9.7%
11/30/97	6.3%	0.0%	86.7%	7.0%
2/28/98	27.1%	11.8%	55.5%	5.6%
5/31/98	19.0%	0.0%	77.3%	3.7%

As of May 31, 1998, 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 May 31, 1998 was \$1,643.6 million and the market value was \$1,666.4 million, indicating an unrealized gain on that date of \$22.8 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 Short Term Fund ("STF") is the designation given by the University System administration to the money market mutual fund known as the Dreyfus Institutional Preferred Money Market Fund which the Board has approved as an investment for University System funds. The Dreyfus Institutional Preferred Money Market Fund (the "Dreyfus Fund") is an open-end, diversified, management investment company, known as a money market mutual fund. The Dreyfus Corporation serves as the Dreyfus Fund's investment advisor. The Dreyfus Fund is organized as an unincorporated business trust under the laws of the Commonwealth of Massachusetts. 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 May 31, 1998, the amount of University System funds invested in the STF was \$855.0 million (excluding endowment, trust and other funds invested in the Dreyfus Fund.). As of May 31, 1998, the Dreyfus Fund had a net asset value at amortized cost of \$1,610.0 million.

Permanent University Fund. The Permanent University Fund ("PUF") is a public endowment contributing to the support of eligible institutions of the University System and The Texas A&M University System. The Constitution of 1876 established the PUF through the appropriation of land grants previously given to The University of Texas plus one million acres. Additional land grants to the PUF were completed in 1883 with the contribution of another one million acres. Today, the PUF contains 2,109,190 acres located in 24 counties primarily in West Texas. The Board recognizes that achievement of the PUF's investment objectives is substantially hindered by the inability to make distributions on a total return basis and current distribution rates in excess of long-term equilibrium levels. The new policy also established long-term asset allocations for the Permanent University Fund of 50% to 90% in equities (including domestic and international stocks and alternative asset investments) and not more than 50% in fixed income securities.

As described above, asset allocation within the PUF is the responsibility of UTIMCO and neutral policy allocations are subject to change from time to time based on the economic and investment outlook. The asset classes within the PUF, the neutral policy allocation percentages for each asset class and the actual allocation percentages as of May 31, 1998 are set forth below.

<u>Asset Class</u>	<u>Neutral Policy Allocation</u>	<u>Percentage Allocation (as of 5/31/98)</u>
Cash & Cash Equivalents	0.0%	.6%
Fixed Income Securities	20.0%	34.4%
Equity Securities	55.0%	58.3%
Alternative Equities ⁽¹⁾	<u>25.0%</u>	<u>6.7%</u>
Total Assets	<u>100.0%</u>	<u>100.0%</u>

⁽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 or otherwise readily marketable; (ii) alternative illiquid investments, which are generally held through limited partnership interests and include private equity,

buyout mezzanine debt, and venture capital investments that are privately held and which are not registered for sale on public exchanges; and (iii) inflation hedging assets, which include oil and gas interests, real estate, commodities, and other assets whose current incomes and principal values generally increase as inflation accelerates.

As of May 31, 1998, approximately 52.0% of the investment of PUF funds was managed internally and approximately 48.0% was managed externally by unaffiliated investment managers. The book value of the total portfolio of investments held in the PUF as of May 31, 1998 was \$5,318.7 million and the market value was \$7,090.1 million, indicating an unrealized gain on that date of \$1,771.4 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. Further, pursuant to the Board's Investment Policies, UTIMCO has the right to establish new neutral allocations and ranges for each asset class of the PUF and the LTF, at its discretion and at any time, subject to the broad policy guidelines established by the Board and described above.

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, designated, and restricted funds, endowment and other gift funds, student loan funds, funds for the payment of overhead expenses of conducting research and H.E.A.F. Funds (hereinafter defined). 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 Comptroller of Public Accounts. The State Comptroller of Public Accounts invests money in the State Treasury in authorized investments consistent with applicable law. The State Comptroller of Public Accounts 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. Less than 1.0% 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 May 31, 1998, the amount of University System funds held by the State Treasury was \$133.7 million.

The State Comptroller of Public Accounts, 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 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 1997 to apply through fiscal year 2003.

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 fiscal year 1999, the University System anticipates issuing additional Permanent University Fund debt in the amount of \$75,000,000. Additional issuances of Parity Debt will continue to be made under the Revenue Financing System commercial paper program for equipment and construction needs with anticipated issuances of \$150,000,000. 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. No additional H.E.A.F. bonds are anticipated to be sold through fiscal year 2005.

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 April, 1990, the Board restructured its debt program by establishing the Revenue Financing System pursuant to the Master Resolution. See "APPENDIX B, 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 \$152,495,000, 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. In 1996 pursuant to the Fourth Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Bonds, Series 1996A, in the aggregate principal amount of \$72,600,000 to pay the cost of improvements at certain component institutions of The University System and its Series 1996B Bonds in the aggregate principal amount of \$232,135,000 refunding certain outstanding obligations of the Board and to provide funds to pay the cost of improvements at certain component institutions of the University System. On November 14, 1996, the Board approved the Fifth Supplemental Resolution authorizing up to an aggregate amount of \$25,000,000 of taxable Revenue Financing System Commercial Paper Notes, Series B. No taxable notes have been issued under the Fifth Supplemental Resolution and the Board does not have any current plans to issue such notes. In February 11, 1998 pursuant to the Sixth Supplemental Resolution to the Master Resolution, the Board issued its Revenue Financing System Bonds, Series 1998A, in the aggregate principal amount of \$10,690,000 and its Revenue Financing System Bonds, Series 1998B in the aggregate amount of \$111,915,000 for the current refunding of outstanding Revenue Financing System Commercial Paper Notes, Series A. 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 \$350,000,000. 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".

The Board has agreed to limit the maximum amount of Commercial Paper Notes which may mature on any business day to \$25 million. In addition, in the event that the net asset value of the S/ITF shall decline to an amount less than \$1,225 million and be expected 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 \$250 million. In the event that the net asset value of the S/ITF shall decline subsequently to an amount less than \$875 million and be expected 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.

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 May 31, 1998, the Board's constitutionally authorized Permanent University Fund bond capacity was \$1,063,734,615 and bonds and notes issued and outstanding under this limit were \$721,200,000. The aggregate principal amount of Permanent University Fund bonds and notes outstanding as of July 1, 1998 was \$683,810,000.

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 January 10, 1996, the Board issued and delivered \$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.

Outstanding Indebtedness. As of July 1, 1998, the Board had the following outstanding indebtedness under all of its financing programs:

Revenue Financing System Bonds ⁽¹⁾ :	
Refunding Bonds, Series 1991A	\$ 94,095,000
Refunding Bonds, Series 1991B	56,450,000
Refunding Bonds, Series 1991C	1,950,000
Series 1995A	72,035,000
Series 1996A	70,515,000
Series 1996B	226,335,000
Series 1998A	10,690,000
Series 1998B	111,915,000
Subtotal	\$ 643,985,000
Revenue Financing System Commercial Paper Notes ⁽²⁾ :	
Series A	\$ 146,521,000
Subtotal	\$ 146,521,000
Tuition Bonds ⁽³⁾ :	
General Tuition Revenue Refunding Bonds, Series 1992	\$ 32,925,000
Subtotal	\$ 32,925,000
Permanent University Fund Bonds	
Refunding Bonds, Series 1991	32,030,000
Refunding Bonds, Series 1992A	189,810,000
Refunding Bonds, Series 1992B	12,640,000
Refunding Bonds, Series 1996	259,630,000
Series 1997	130,000,000
Variable Rate Notes, Series A	59,700,000
Subtotal	\$ 683,810,000
H.E.A.F. Bonds:	
The University of Texas-Pan American, Series 1995	\$ 21,550,000
Subtotal	\$ 21,550,000
Total	\$ 1,528,791,000

(1) See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System".

(2) The Board is authorized to issue the Commercial Paper Notes in a maximum aggregate principal amount outstanding at any one time of \$350,000,000. See "FINANCIAL MANAGEMENT OF THE UNIVERSITY OF TEXAS SYSTEM—Debt Management and Anticipated Financing—Financing Programs—Revenue Financing System". \$129,609,000 of the Board's outstanding Commercial Paper Notes are being refunded by the Bonds.

(3) These Bonds constitute Prior Encumbered Obligations.

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 four retirement plans. The first retirement plan is a cost-sharing multi-employer public employee retirement system administered by the Teacher Retirement System of Texas ("TRS"). TRS is primarily funded through State and employee contributions. For fiscal year 1997, the University System's total payroll for employees paid from State funds and from funds other than State funds was \$2,398 million, and \$1,138 million of such amount related to employees covered by the TRS retirement plan. For employees paid from State funds, the State made contributions of \$46.0 million to the TRS retirement plan. For employees not paid from State funds, the University System made contributions of \$19.1 million. Employees made total contributions of \$72.9 million. As of August 31, 1997, the total pension benefit obligation was \$50.0 billion and the net assets available for satisfying the benefit obligation was \$62.2 billion. Additional information and ten-year historical trend information may be obtained from a separately issued Teacher Retirement System of Texas Comprehensive Annual Financial Report or the internet at www.trs.state.tx.us/report/gasb5.htm.

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 \$2,398.0 million for fiscal year 1997, \$914.7 million related to employees covered by the optional retirement plan. During the year contributions of approximately \$38.4 million were made by the State and contributions of \$26.5 million were made by the University System. Employees made contributions of \$60.8 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.

Certain employees at The University of Texas Medical Branch at Galveston participate in the Employees Retirement System ("ERS") of Texas. ERS is a single employer defined benefit pension plan. ERS covers the University System employees who are not covered by the TRS or the Optional Retirement Program. The funding policy requires monthly contributions by both the State and employees. Of the University System's total payroll, \$48.6 million related to employees covered by ERS. During fiscal year 1997, contributions of approximately \$2.9 million were made by the State and no contributions were made by the University System. Employees contributed \$2.9 million to this retirement plan. Additional information can be obtained from the separately issued ERS Comprehensive Annual Financial Report.

The University of Texas M.D. Anderson Cancer Center has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service Supplemental Retirement Plan/Retirement Benefit Plan of the Anderson Hospital (the "Plan"). The Plan is a non-qualified plan described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The Plan is reported on the accrual basis of accounting in Agency Funds. Assets of the Plan remain subject to the claims of the general creditors of The University of Texas M.D. Anderson Cancer Center. The University of Texas M.D. Anderson Cancer Center's contribution to the Plan was \$4.0 million for fiscal year 1997. Additional information can be obtained from the separately issued

financial statements of the Plan.

Year 2000

What is commonly known as the "Year 2000 issue" arises because many computer hardware and software systems use only two digits to represent the year. As a result, these systems and programs may not correctly calculate dates beyond 1999. The issue is compounded by the fact that the year 2000 (unlike the year 1999) is a leap year, which may also lead to incorrect calculations. All of this could result in computer system failures or miscalculations causing disruptions of operations. While the Year 2000 issue has been widely publicized in relation to computer systems, it also affects a variety of other devices that contain embedded logic chips, such as certain medical equipment. With nine academic and six medical components, the University System is highly dependent upon computer systems and other devices with embedded logic chips for such things as processing applications, maintaining records, providing financial aid, collecting tuition, fees and other charges, paying salaries and other expenses, operating and maintaining facilities, conducting research, requesting grants, providing medical care and promoting safety.

The University System has been actively involved with Year 2000 remediation efforts since the Fall of 1996. The University System's remediation program is coordinated by a University System administrator designated as the System Year 2000 Coordinator. In addition, all fifteen component institutions have remediation programs and each has a designated campus Year 2000 coordinator. A centralized procedure has been established to monitor the progression of remediation. The University System presently believes that with modifications to existing computer systems and conversion, as needed, to new software systems, the Year 2000 issue will not pose material operational problems for its computer systems. The University System's remediation program also involves formal communications with external organizations with whom significant amounts of data are interchanged or from whom significant amounts of goods or services are procured to determine the extent to which the University System's interface systems or other operations are vulnerable to those third parties' failure to remediate their own Year 2000 issues. However, there can be no guarantee that the computer systems of such third parties will be timely converted and would not have an adverse effect on the University System's computer systems or operations.

The University System's Year 2000 remediation project is currently estimated to cost approximately \$21 million. This cost estimate is based upon the University System's best estimates, which are derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and convert all relevant computer codes and similar uncertainties. The University System did not receive any specific legislative appropriation to address Year 2000 issues. Accordingly, remediation costs are being paid from existing institutional funds.

While the University System does not believe that the Year 2000 matters discussed above will 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, it remains uncertain whether or to what extent the University System may be affected by such matters.

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 1998.

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 November 29 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. If audited financial statements of the University System are not prepared for any fiscal year and audited financial statements are prepared with respect to the State of Texas for such fiscal year, the Board shall provide, or cause to be provided, the audited financial statements of the State of Texas for the applicable fiscal year to each NRMSIR and any SID within six months after the end of said fiscal year or as soon thereafter as such audited financial statements become available from the State Auditor of the State of Texas. Any such audited financial statements of the State of Texas so provided shall be prepared in accordance with generally accepted accounting principles for state governments, as such principles may be changed from time to time to comply with state law.

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 needs 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 or attached to 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. 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 BOND", "DESCRIPTION OF THE REVENUE FINANCING SYSTEM", "CONTINUING DISCLOSURE OF INFORMATION", "LEGAL MATTER", "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, Texas, Counsel to the Underwriters.

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 "specified 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 federal tax certificate and (b) representations and 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 the Refunded Notes and certain other matters. Inaccuracy of these representations or 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 initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds"), may be 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, owners of an interest in a FASIT, 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 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Board assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The Board will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the Board, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Issuance of the Bonds will be subject to delivery by _____, independent certified public accountants, of a report of the mathematical accuracy of certain computations relating to 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. Such computations will be based solely on assumptions and information supplied by the Underwriters on behalf of the Board. _____ will restrict its procedures to examining the mathematical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based, and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

RATINGS

Standard & Poor's Rating Services, and Fitch IBCA, Inc. have assigned ratings of _____ to the Bonds. The University System did not request a rating from Moody's Investors Service, Inc., however, Moody's Investors Service, Inc., may assign a rating. 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 purchase the Series 1998C Bonds at a price equal to par plus accrued interest plus a net original issue premium of \$ _____. The Board shall pay to the Underwriters from available funds a fee of \$ _____ with respect to the Series 1998C Bonds. The Underwriters have also agreed, subject to certain customary conditions to purchase the Series 1998D Bonds at a price equal to par plus accrued interest plus/less a net original issue premium/discount on the Bonds of \$ _____ and less an underwriting discount of \$ _____. The Underwriters' obligations are subject to certain conditions precedent, and they 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.

The Supplemental Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and authorized its further use in the reoffering of the Bonds by the Purchaser.

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

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

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 means the Board of Regents of The University of Texas System.

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, and August 14, 1997.

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, 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 Norwest Bank Texas, N.A.

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 as it existed prior to the effective date of S.B. 1907, from the students (excepting, with respect to each series or issue of Parity Debt issued prior to such date, any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, was 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 the such institutions or branches thereof, respectively, in the manner and amounts, at the times, and to the extent provided in the Master Resolution, and including, subject to the provisions of the Prior Encumbered Obligations, the Prior Encumbered General 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 constituting a Member of the Revenue Financing System, but specifically excluding and 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 Supplement relating to such Parity Debt (1) was exempt by law from paying such tuition, (2) the amount of tuition scholarships provided for by law at the time of the adoption of each Supplement, and (3) the Prior Encumbered 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, the Revenue Funds, including all of the 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: (a) the interest of The University of Texas System in the Available University Fund under Article 7, Section 18 of the Constitution of the State of Texas, 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 7, Section 17 of the Constitution of the State of Texas, including the income therefrom and any fund balances relating 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 specifically appropriated, general revenue funds appropriated to the Board by the Legislature of the State of Texas (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 as it existed prior to the effective date of S.B. 1907, the following specified amounts 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 Financing System (excepting the Health Institutions), 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 Revenue Financing System and which are secured by a lien 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 this Resolution on behalf of Parity Debt.

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.

Revenue Funds means the "revenue funds" of the Board (as defined in Section 55.01 of the Texas Education Code to mean the revenues, incomes, receipts, rentals, rates, charges, fees, grants, and tuition levied or collected from any public or private source by an institution of higher education, including interest or other income from those funds) derived by the Board from the operations of each of the Members, including specifically the Pledged General Tuition and, to the extent and subject to the provisions of the Master Resolution, the Pledged General Fee and the Pledged Tuition Fee. Revenue Funds does not include, with respect to each series or issue of Parity Debt, any tuition, rentals, rates, fees, or other charges attributable to any student in a category which, at the time of the adoption of the Supplement relating to such Parity Debt, is exempt by law from paying such tuition, rentals, rates, fees, or other charges.

S.B. 1907 means Senate Bill 1907 passed by the State Legislature in the Seventy-fifth Regular Legislative Session.

State means the State of Texas.

Supplement means a resolution adopted by the Board pursuant to the Master Resolution authorizing the issuance of Parity Debt.

Supplemental Resolution means the Seventh Supplemental Resolution to the Master Resolution adopted by the Board on August 13, 1998 , providing for the issuance of the Bonds.

U.T. System Representative means one or more of the following officers or employees of the University System, to-wit: the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Finance, the Director of Finance, or such other officer or employee of the University System authorized by the Board to act as a U.T. System Representative.

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 Supplement consistent with the provisions of the Master Resolution.

Security and Pledge: Membership in the 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 Supplement 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 Revenues, 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 Revenues

Pledged General Fee Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General Fee from each student (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 Supplement relating to such Parity Debt, was exempt by law from paying fees) enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability

of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, 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 the Parity Debt Outstanding on August 1, 1997, when and as required. The Pledged General Fee shall be adjusted, if and when permitted or required by this Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with such Outstanding Parity Debt. The Board may fix, levy, charge, 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, respectively, and in addition it may totally suspend the collection of the Pledged General Fee from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Financing System including all payments and deposits in connection with such outstanding Parity Debt. All changes in the Pledged General Fee shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. 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 Member. Notwithstanding the foregoing provisions, so long as there is no default or anticipated default in the payment of the outstanding Parity Debt referenced above, the Board does not intend to and will not assess and collect the Pledged General Fee.

Pledged General Tuition and Other Pledged Revenues Subject to the provisions of the resolutions authorizing Prior Encumbered Obligations and to the other provisions of the Master Resolution and any Supplement, the Board covenants and agrees at all times to fix, levy, charge, and collect at each Member which has students the Pledged General Tuition and other Pledged Revenues from each student enrolled at each Member, respectively, at each regular fall and spring semester and at each term of each summer session, for the use and availability of such institution or branch thereof, respectively, in such amounts, without any limitation whatsoever, 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 the Parity Debt then outstanding when and as required. The Pledged General Tuition and the other rentals, rates, fees, and charges included in Pledged Revenues shall be adjusted, if and when permitted or required by the Master Resolution or any Supplement, to provide Pledged Revenues sufficient to make when due all payments and deposits in connection with the Parity Debt then outstanding. The Board may fix, levy, charge, and collect the Pledged Revenues in any manner it may determine within its discretion, and in different amounts from students enrolled in different Members, respectively, and in addition it may totally suspend the collection of any item included in Pledged Revenues from the students enrolled in any Member, so long as total Pledged Revenues are sufficient, together with other legally available funds, to meet all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits in connection with the Parity Debt then outstanding. All changes in the Pledged General Tuition shall be made by a resolution of the Board, but such procedure shall not constitute or be regarded as an amendment of the Master Resolution or any Supplement, but merely the carrying out of the provisions and requirements thereof. 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 Tuition at such Member.

Annual Obligation If, in the judgment of the Board, any Member has been or will be unable to satisfy its Annual Obligation, the Board shall fix, levy, charge, and collect rentals, rates, fees, and charges for goods and services furnished by such Member and, with respect to Member with enrolled students, the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, effective at the next succeeding regular semester or semesters or summer term or terms, in amounts sufficient, without limit (subject to the provisions discussed below), together with other legally available funds, including other Pledged Revenues attributable to such Member, to enable it to make its Annual Obligation payments.

Anticipated Deficit If the Board determines, for any reason whatsoever, (i) that there are not anticipated to be sufficient legally available funds, including Pledged Revenues, to meet all financial obligations of the Board relating to the Revenue Financing System, including the deposits and payments due on or with respect to the Parity Debt outstanding at that time as the same mature or come due, or (ii) that any Member will be unable to pay its Annual Direct Obligation in full, then the

Board shall fix, levy, charge, and collect the Pledged General Tuition, and, if necessary as discussed above, the Pledged General Fee, at each Member with enrolled students, effective at the next succeeding regular semester or semesters or summer term or terms, in such amounts, without any limitation whatsoever (other than as provided below), as will be at least sufficient to provide, together with other legally available funds, including other Pledged Revenues, the money for making when due all financial obligations of the Board relating to the Revenue Financing System including all payments and deposits due on or with respect to outstanding Parity Debt when and as required by the Master Resolution or any Supplement.

Economic Effect of Adjustments Any adjustments in the rate or manner of charging for any rentals, rates, fees, tuition, or other charges included in Pledged Revenues, including the Pledged General Tuition and the Pledged General Fee, if any, at any of the Members pursuant to the provisions described above will be based upon a certificate and recommendation of a U.T. System Representative, delivered to the Board, as to the rates and anticipated collection of the Pledged Revenues at the various Members (after taking into account the anticipated effect of the proposed adjustments in such rentals, rates, fees, tuition, or other charges would have on enrollment and the receipt of Pledged Revenues and other funds at each 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 by the Master Resolution and any Supplement.

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 Supplement; (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 Supplement; (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 Supplement; (f) invest and secure money in all funds and accounts established under the Master Resolution and any Supplement 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 U.T. System 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 Supplement 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 U.T. System 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 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 Supplement. The obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and each Supplement 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 Supplement, 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 Supplement, 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 Supplements. Each Supplement may contain provisions governing the ability of the Board to amend such Supplement; provided, however, that no amendment may be made to any Supplement for the purpose of granting to the owners of outstanding Parity Debt under such Supplement a priority over the owners of any other outstanding Parity Debt.

Remainder of This Page Intentionally Left Blank

APPENDIX C
FINANCIAL STATEMENT OF
THE UNIVERSITY OF TEXAS SYSTEM

Academic Component Institutions
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 at the Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler
The University of Texas at Victoria



Health Component Institutions
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 at G. Anderson Cancer Center
The University of Texas Health Center at Tyler

THE UNIVERSITY OF TEXAS SYSTEM

201 WESTSEVENTH STREET AUSTIN, TEXAS 78701-2981

November 26, 1997

System Audit Office
Telephone (512) 499-4527
FAX (512) 499-4550

Dr. William H. Cunningham
Chancellor
The University of Texas System
Austin, Texas

Dear Dr. Cunningham:

Submitted herein are the combined primary financial statements of The University of Texas System for the fiscal year ended August 31, 1997. Also presented are the primary financial statements of System Administration and the component institutions of The University of Texas System for the same period. In addition to this report, separately bound Annual Financial Reports, which include the primary financial statements and supporting schedules, for System Administration and each of the component institutions will be published.

The financial statements in this report have been prepared in conformity with the General Provisions of the Appropriations Act, Article IX, and in accordance with the requirements established by the State Comptroller of Public Accounts. The Annual Financial Report will be audited by the State Auditor as part of the audit of the Statewide Annual Financial Report; therefore, a separate opinion has not been expressed on the statements and related information contained in this report.

If you have any questions regarding this report or the supporting schedules in the subsequently published component institutions' Annual Financial Reports, please contact me at 499-4527.

Respectfully Submitted,

Debbie L. Frederick, CPA
Financial Reports Officer

Approved:

Kerry L. Kennedy, CPA
Assistant Vice Chancellor
and Controller

DLF/jbp
Enclosure

THE UNIVERSITY OF TEXAS SYSTEM
 EXHIBIT A - COMBINED BALANCE SHEET
 As of August 31, 1997 (with comparative totals at August 31, 1996)

	CURRENT FUNDS						
	UNRESTRICTED FUNDS						Endowment and Similar Funds- State
	Educational and General	Designated	Auxiliary Enterprises	Total	Restricted	Loan Funds	
ASSETS							
Cash and Temporary Investments (Notes 1 & 2)	\$ 221,942,906	303,922,866	44,154,690	570,020,462	129,695,999	8,460,445	40,481,533
Balance in State Appropriations	62,272,123			62,272,123			
Investments (Notes 1 & 2)	333,902,749	676,643,952	41,920,386	1,052,467,087	294,046,829	10,918,861	5,248,368,291
Federal Accounts Receivable					59,026,353	1,008,559	
Other Accounts Receivable, net of Allowances of \$243,221,580 as of August 31, 1997 and \$275,301,283 as of August 31, 1996	99,135,900	151,330,492	4,722,427	255,188,819	88,091,088	29,004	7,637,131
Accrued Interest Receivable (Note 19)	2,455,906	3,930,615	283,775	6,670,296	1,464,660	55,871	
Notes Receivable, net of Allowances of \$11,359,474 as of August 31, 1997 and \$10,932,617 as of August 31, 1996	210,991	72		211,063		106,764,282	
Federal Grants Receivable (Note 12)					323,391	448,939	
Non-Federal Grants Receivable (Note 12)					1,626,241		
Other Receivables and Prepayments	10,600,432	3,302,318	40,657	13,943,407	8,000,470	10,122	
Due from Other Funds (Note 16)		34,218,670		34,218,670	20,759,503		
Due from Other Agencies (Note 23)	554,618	2,471		557,089	11,462,707		
Inventories	15,598,292	13,401,762	11,555,654	40,555,708	23,240		
Deposits	1,680,462	5,294	61,760	1,747,516		25,616	
Prepaid Expenses	5,190,338	8,611,486	1,550,032	15,351,856	18,152,450		
Deferred Charges	12,900	323,941	8,027	344,868	1,342,446	41,660	
Funds Held by Sealy & Smith Foundation Land (Note 18)							
Buildings (Note 18)							
Improvements Other than Buildings (Note 18)							
Equipment (Note 18)							
Library Books (Note 18)							
Museums and Art Collections (Note 18)							
Construction in Progress (Notes 15 & 18)							
TOTAL ASSETS	\$ 753,557,617	1,195,693,939	104,297,408	2,053,548,964	634,017,387	127,763,359	5,296,506,955
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts Payable	34,365,760	40,019,136	6,306,677	80,691,573	10,067,109	540,722	311,829,540
Retainage Payable							
Accrued Compensable Absences Payable (Note 7)	75,334,335	35,137,878	3,729,522	114,201,735	23,831,331		
Other Accrued Liabilities	139,702,376	44,164,464	4,481,940	188,348,780	27,922,977		
Self-Insurance Claims (BMR (Note 13))		171,955,313		171,955,313			
Revenue Bonds Payable (Note 3)							
General Obligation Bonds Payable (Note 3)							
Notes and Loans Payable (Note 4)							
Lease Purchases Payable (Note 9)							
Due to Other Funds (Note 16)	23,157,221		836,633	23,993,854		2,860,230	
Due to Other Agencies (Note 23)		25,674		25,674	100,925		
Deposits	2,878,911	172,097	1,139,958	4,190,966	5,843		
Deferred Revenue	74,779,403	57,959,517	33,701,837	168,440,757			
Due to the Texas A&M University System Equipment Held in Trust							
Funds Held in Custody for Others							
Total Liabilities	350,218,006	349,434,079	52,196,567	751,848,652	61,928,187	3,400,952	311,829,540
Unrestricted							
Reserved							
Encumbrances	159,085,692	43,192,556	4,712,346	206,990,594			
State Appropriations to be Lapsed	1,180,340			1,180,340			
Accounts Receivable	99,135,900	151,330,492	4,722,427	255,188,819			
Inventories	15,598,292	13,401,762	11,555,654	40,555,708			
Self-Insurance Plans		84,966,164		84,966,164			
HEAF	4,516,511			4,516,511			
Other Specific Purposes	28,200,706	8,938,223	2,020,341	39,159,270			
Unreserved							
Allocated	95,622,170	530,477,701	20,735,026	646,834,897			
Unallocated		13,952,962	8,355,047	22,308,009			
Restricted - Encumbered					27,849,357		
Restricted - Other					544,239,843		
U.S. Government Grants Refundable						83,080,801	
University Loan Funds						41,281,606	
Endowment							4,984,677,415
Term Endowment							
Funds Functioning as Endowment - Restricted							
Funds Functioning as Endowment - Unrestricted							
Net Investment in Plant							
Total Fund Balances	403,339,611	846,259,860	52,100,841	1,301,700,312	572,089,200	124,362,407	4,984,677,415
TOTAL LIABILITIES AND FUND BALANCES	\$ 753,557,617	1,195,693,939	104,297,408	2,053,548,964	634,017,387	127,763,359	5,296,506,955

Endowment and Similar Funds - Other than State	Annuity and Life Income Funds	Available University Fund	PLANT FUNDS				Agency Funds	TOTALS		Reporting Entry 1997	(Memo Only) 1996
			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		Primary Government	Component Units		
210,652	9,007	115,566,186	187,299,415 2,144,032	2,237,629	3,463,539	30,363,345	1,087,808,212 64,416,155	5,574,724	1,093,382,936 64,416,155	1,014,866,534 79,443,761	
1,751,276,422	22,800,593	86,100	141,058,709	3,734,738		196,214,475	8,720,972,103 60,034,914		8,720,972,103 60,034,914	7,971,492,647 64,103,035	
4,913,318		988	6,470,006		128	446,497	362,796,979		362,796,979	358,300,970	
8,434,571		48,668,794	906,854	8,569	99	23,158,555	89,368,269		89,368,269	88,754,166	
			1,211,111				106,975,345 1,983,441		106,975,345 1,983,441	105,464,494 1,263,052	
			5,020,093			1,009,067	1,626,241 27,983,159	325,496	1,626,241 28,308,655	556,767 12,935,660	
			10,459,241				65,437,414 12,019,796		65,437,414 12,019,796	45,127,840 12,019,796	
						706	40,581,262 1,773,132		40,581,262 1,773,132	40,000,147 157,479	
						9,635,860	43,140,166 1,803,767	112,216	43,252,382 1,803,767	31,776,636 1,848,747	
35,943,465						74,793	35,943,465 158,236,417		35,943,465 158,236,417	30,902,327 156,321,920	
							3,060,476,689 293,921,813		3,060,476,689 293,921,813	2,786,223,739 289,232,996	
							1,677,274,610 344,421,599	389,219	1,677,663,829 344,421,599	1,588,043,879 326,413,611	
							69,725,442 446,589,745		69,725,442 446,589,745	67,784,685 443,755,859	
<u>1,800,778,428</u>	<u>22,809,600</u>	<u>164,322,068</u>	<u>354,569,461</u>	<u>5,980,936</u>	<u>3,463,766</u>	<u>6,050,646,315</u>	<u>261,292,117</u>	<u>16,775,699,356</u>	<u>6,351,102</u>	<u>16,782,050,458</u>	<u>15,504,770,371</u>
138,096,140		638,776	8,472,070 12,810,946				683,234	551,019,164	89,919	551,109,083	492,031,386
								12,810,946		12,810,946	10,807,785
								138,485,024		138,485,024	129,557,335
		451,958	12,335				8,548,751	225,166,407	351,780	225,518,187	172,419,268
		333,564						171,955,313		171,955,313	183,163,003
			85,824,296			987,680,704		1,073,505,000		1,073,505,000	1,130,805,000
						21,550,000		21,550,000		21,550,000	23,670,000
			3,660,261			327,511,577		331,171,838		331,171,838	149,162,115
						1,976,162		1,976,162		1,976,162	1,308,849
12,303,111		26,170,686					109,533	65,437,414		65,437,414	45,127,840
								126,599		126,599	
50							7,851	4,204,712		4,204,712	3,982,193
							166,529	168,607,286		168,607,286	154,074,010
		1,105,168						1,105,168		1,105,168	1,821,338
						69,409,052	389,219	69,798,271		69,798,271	64,514,706
							251,387,000	251,387,000		251,387,000	216,431,247
<u>150,399,301</u>		<u>28,700,152</u>	<u>110,779,908</u>			<u>1,408,127,495</u>	<u>261,292,117</u>	<u>3,088,306,304</u>	<u>441,699</u>	<u>3,088,748,003</u>	<u>2,778,878,075</u>
								240,084,907		240,084,907	239,456,967
								1,180,340		1,180,340	11,407,567
								255,188,819		255,188,819	248,851,746
								40,555,708		40,555,708	39,971,670
								84,966,164		84,966,164	70,080,648
								4,516,511		4,516,511	6,225,344
		48,754,894						87,914,164		87,914,164	92,710,642
								869,422,657	5,570,737	874,993,394	701,644,496
			129,811,105	5,980,936				23,522,033		23,522,033	1,880,149
			1,214,024					44,962,641		44,962,641	138,255,984
			17,113,284					633,141,339		633,141,339	533,298,842
	22,809,600		62,628,130		3,463,766			83,080,801		83,080,801	80,183,396
								41,281,606		41,281,606	39,369,618
1,187,209,238								6,171,886,653		6,171,886,653	5,766,737,230
2,172,483								2,172,483		2,172,483	2,056,720
411,036,853								411,036,853		411,036,853	333,439,869
49,960,553								49,960,553		49,960,553	40,972,437
						4,642,518,820		4,642,518,820	338,666	4,642,857,486	4,379,349,571
<u>1,650,379,127</u>	<u>22,809,600</u>	<u>135,621,916</u>	<u>243,789,553</u>	<u>5,980,936</u>	<u>3,463,766</u>	<u>4,642,518,820</u>		<u>13,687,393,052</u>	<u>5,909,403</u>	<u>13,693,302,455</u>	<u>12,725,892,896</u>
<u>1,800,778,428</u>	<u>22,809,600</u>	<u>164,322,068</u>	<u>354,569,461</u>	<u>5,980,936</u>	<u>3,463,766</u>	<u>6,050,646,315</u>	<u>261,292,117</u>	<u>16,775,699,356</u>	<u>6,351,102</u>	<u>16,782,050,458</u>	<u>15,504,770,371</u>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

THE UNIVERSITY OF TEXAS SYSTEM
 EXHIBIT 9 - COMBINED STATEMENT OF CHANGES IN FUND BALANCES
 For the Year Ended August 31, 1997 (with comparative totals for the year ended August 31, 1996)

	CURRENT FUNDS					Loan Funds	Endowment and Similar Funds - State
	UNRESTRICTED FUNDS						
	Educational and General	Designated	Auxiliary Enterprises	Total	Restricted		
FUND BALANCES, September 1, 1996	\$ 381,859,832	758,465,733	41,687,368	1,182,012,933	494,942,499	119,553,014	4,648,364,445
Restatements (Note 17)	2,287,892	(4,370,146)		(2,082,254)	(1,913,698)		
FUND BALANCES, September 1, 1996-Restated	384,147,724	754,095,587	41,687,368	1,179,930,679	493,028,801	119,553,014	4,648,364,445
REVENUES AND OTHER ADDITIONS							
Unrestricted Current Funds Revenues	2,488,378,638	1,194,140,265	217,807,637	3,900,326,540			
Federal Grants and Contracts - Restricted (Note 12)					639,242,596		
Fed. Pass-Through Grants fr. Oth. St. Agencies (Notes 12 & 24)					30,488,255		
State Grants and Contracts - Restricted (Note 12)					47,645,792		
St. Pass-Through Grants fr. Oth. St. Agencies (Notes 12 & 25)					2,420,698		
Local Grants and Contracts - Restricted (Note 12)					42,793,447	300	
Private Gifts, Grants and Contracts - Restricted (Note 12)					303,359,898	39,205	
Proceeds from the Sale of Bonds							
Proceeds from Notes & Loans (Note 4)							
Investment Income					72,907,319	400,217	
Realized Gains on Investments					1,181		250,991,932
Interest on Notes Receivable						2,560,340	
U.S. Government Advances						1,702,346	
Net Decrease in Accrued Compensable Absences Payable							
Expended for Plant Facilities (Including \$194,583,713 Charged to Current Funds Expenditures)							
Medicare and Medicaid Cost Adjustments	18,105,879			18,105,879			
Net Decrease in Bonds Payable							
Net Decrease in Notes and Loans Payable							
Net Decrease in Self Insurance Claims (BNR) (Note 13)		11,209,690		11,209,690			
Net Decrease in Lease Purchases Payable							
Lease Purchases Capitalized							
Other Interest Income					9,013,562	666,848	
Land Income							85,321,038
Component Units (Note 21)							
Other Additions	3,570,968	10,308,522	77,345	13,957,035	21,432,591	1,560,921	
TOTAL REVENUES AND OTHER ADDITIONS	2,510,055,485	1,215,658,477	217,885,182	3,943,599,144	1,171,305,339	6,930,177	336,312,970
EXPENDITURES AND OTHER DEDUCTIONS							
Expenditures	2,399,858,026	1,063,388,934	194,473,208	3,657,720,166	902,641,301		
State Appropriations Lapsed	8,823,925			8,823,925			
Indirect Costs Recovered					140,255,528		
Refunded to Grantor					9,380,290		
Loan Cancellations and Write-offs						515,992	
Administrative and Collection Costs					590,551	381,085	
Realized Losses on Investments					22,923		
Expended for Plant Facilities							
Retirement of Indebtedness - Bonds							
Retirement of Indebtedness - Notes & Loans (Note 4)							
Interest and Other Financing Charges/Fees on Indebtedness							
Net Increase in Accrued Compensable Absences Payable	2,749,597	3,278,416	296,649	6,324,662	2,597,900		
Disposed of Plant Facilities							
Net Increase in Bonds Payable							
Net Increase in Notes and Loans Payable (Note 4)							
Net Increase in Lease Purchases Payable							
Medicare and Medicaid Cost Adjustments							
Write Offs of Plant Facilities							
H.B. 1 Art. IX, Sec. 153 Budget Reduction							
Bond Defeasance							
Component Units (Note 21)							
Other Deductions	10,649,053	8,113,183	245,451	19,007,687	22,480,997	303,518	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	2,422,080,601	1,074,780,533	195,015,308	3,691,876,440	1,077,969,490	3,260,444	
TRANSFERS							
MANDATORY							
To Retirement of Indebtedness Funds:							
General Tuition Revenue Bonds	(6,211,117)	(405,544)		(6,616,661)			
Revenue Financing System - Revenue Bonds	(26,655,072)	(32,763,078)	(7,522,308)	(66,940,458)	(961)		
Permanent University Fund Bonds							
To Loan Funds	(159,106)	(458,936)	(26,688)	(644,730)	(67,943)	712,673	
To Endowment and Similar Funds	(1,079,683)	(78,000)		(1,157,683)	(2,112,692)		
NON-MANDATORY							
Between Funds	(34,678,019)	(15,008,113)	(4,907,407)	(54,593,539)	(12,093,854)	426,987	
TOTAL TRANSFERS	(68,782,997)	(48,713,671)	(12,456,403)	(129,953,071)	(14,275,450)	1,139,660	
Net Increase (Decrease) for the Fiscal Year	19,191,887	92,164,273	10,413,473	121,769,633	79,060,399	4,809,393	336,312,970
FUND BALANCES, August 31, 1997	\$ 403,339,611	846,259,860	52,100,841	1,301,700,312	572,089,200	124,362,407	4,984,677,415

THE UNIVERSITY OF TEXAS SYSTEM
EXHIBIT C
COMBINED STATEMENT OF CURRENT FUNDS REVENUES AND EXPENDITURES
For the Year Ended August 31, 1997
(with comparative totals for the year ended August 31, 1996)

	Educational and General	Designated
CURRENT FUNDS REVENUES		
Tuition and Fees:		
Tuition Collected	\$ 181,844,868	
Laboratory Fees	1,161,936	9,300
General/Building Use Fees		82,699,372
Student Service Fees		3,431,080
Other Fees	476,255	49,228,838
Remissions and Exemptions	49,702,928	13,054
Total Tuition and Fees	233,185,987	135,381,644
State Appropriations - General Revenue [1]	1,292,301,481	
State Appropriations - HEAF [1]	10,174,500	
Federal Grants and Contracts (Note 12)	106,683,215	21,650,169
Fed. Pass-Through Grants from Other State Agencies (Notes 12 & 24)	1,149,012	188,088
State Grants and Contracts (Note 12)	1,908,362	226,322,994
St. Pass-Through Grants from Other State Agencies (Notes 12 & 25)	1,298,883	
Local Grants and Contracts (Note 12)	17,250,326	83,743,077
Private Gifts, Grants and Contracts (Note 12)	14,202,266	9,731,759
Available University Fund Income	85,388,989	
Endowment/Investment Income	3,058,835	15,594,711
Sales and Services of Hospitals	684,370,171	19,951,377
Sales and Services of Educational Activities	5,575,707	133,648,542
Sales and Services of Auxiliary Enterprises		1,917,824
Professional Fees		429,610,410
Other Interest Income	25,111,703	48,853,317
Other Gains/Losses on Investments		2,946,388
Other Sources	6,719,201	64,599,965
TOTAL CURRENT FUNDS REVENUES	\$ 2,488,378,638	1,194,140,265
CURRENT FUNDS EXPENDITURES		
Educational and General		
Instruction	797,955,596	413,392,630
Research	120,586,412	13,156,445
Public Service	18,352,334	40,450,526
Hospitals	752,472,436	345,916,400
Academic Support	124,382,719	24,853,187
Student Services	32,612,791	28,273,254
Institutional Support	205,985,622	167,492,911
Operations and Maintenance of Plant	281,387,865	5,445,728
Scholarships and Fellowships	66,089,316	22,097,772
Total Educational and General Expenditures	2,399,825,091	1,061,078,853
Auxiliary Enterprises Expenditures	32,935	2,310,081
TOTAL CURRENT FUNDS EXPENDITURES	\$ 2,399,858,026	1,063,388,934
Note [1]:		
State Appropriations - General Revenue:		
Current Year Appropriation per Appropriation Bill	\$ 1,091,522,121	
Employee Benefits:		
OASI Matching	62,746,263	
Benefit Replacement Pay	19,816,733	
Group Insurance	76,931,236	
Retirement Plans	53,842,281	
Unemployment Compensation Insurance	1,552,407	
H.B. 1 Art. IX, Sec. 153 Budget Reduction	(13,362,040)	
Other Additions/Reductions	(747,520)	
Subtotal	1,292,301,481	
State Appropriations - HEAF	10,174,500	
Total State Appropriations	\$ 1,302,475,981	

Auxiliary Enterprises	Total	Restricted	TOTALS	
			1997	(Memo Only) 1996
	181,844,868		181,844,868	172,644,807
	1,171,236		1,171,236	1,146,968
	82,699,372		82,699,372	61,049,573
28,662,301	32,093,381		32,093,381	32,350,403
22,420,638	72,125,731		72,125,731	61,987,752
	49,715,982		49,715,982	35,093,900
<u>51,082,939</u>	<u>419,650,570</u>		<u>419,650,570</u>	<u>364,273,403</u>
	1,292,301,481		1,292,301,481	1,307,012,663
	10,174,500		10,174,500	10,174,500
	128,333,384	502,651,791	630,985,175	590,183,735
	1,337,100	29,742,397	31,079,497	24,824,761
	228,231,356	43,108,843	271,340,199	259,313,166
	1,298,883	2,420,698	3,719,581	22,709,254
1,072,238	102,065,641	39,254,824	141,320,465	120,292,725
1,468,966	25,402,991	233,643,033	259,046,024	257,966,524
	85,388,989		85,388,989	85,445,720
1,986,270	20,639,816	45,874,702	66,514,518	65,717,048
	704,321,548		704,321,548	660,744,062
	139,224,249		139,224,249	115,016,856
155,749,377	157,667,201		157,667,201	158,382,529
	429,610,410		429,610,410	440,635,798
3,541,439	77,506,459	3,637,332	81,143,791	64,720,481
	2,946,388		2,946,388	2,373,730
2,906,408	74,225,574	2,307,681	76,533,255	73,772,415
<u>217,807,637</u>	<u>3,900,326,540</u>	<u>902,641,301</u>	<u>4,802,967,841</u>	<u>4,623,559,370</u>
	1,211,348,226	104,769,704	1,316,117,930	1,275,730,804
	133,742,857	568,246,304	701,989,161	655,752,122
	58,802,860	78,898,437	137,701,297	128,686,519
	1,098,388,836	10,615,058	1,109,003,894	1,053,021,593
	149,235,906	12,131,221	161,367,127	154,561,098
	60,886,045	7,807,470	68,693,515	61,141,818
	373,478,533	20,621,760	394,100,293	330,856,765
	286,833,593	177,313	287,010,906	271,515,283
	88,187,088	94,601,534	182,788,622	165,006,464
	<u>3,460,903,944</u>	<u>897,868,801</u>	<u>4,358,772,745</u>	<u>4,096,272,466</u>
194,473,206	196,816,222	4,772,500	201,588,722	197,870,702
<u>194,473,206</u>	<u>3,657,720,166</u>	<u>902,641,301</u>	<u>4,560,361,467</u>	<u>4,294,143,168</u>

The accompanying Notes to the Combined Financial Statements are an integral part of the financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
For the Year Ended August 31, 1997
(Unaudited)

GENERAL INTRODUCTION

The University of Texas System (the 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 System in maintaining accounts and in the preparation of the combined financial statements are in accordance with Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements. These requirements follow, as near as practicable, the American Institute of Certified Public Accountants (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, and are enumerated in the following paragraphs.

PRINCIPLES OF COMBINING

The combined financial statements include System Administration and all component institutions of the System. Amounts due between component institutions in the same funds, amounts held for component institutions by System Administration, and other duplications in reporting are eliminated in combining the individual financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The combined financial statements of the System have been prepared on the accrual basis. The Combined Statement of Current Funds Revenues and Expenditures is a statement of financial activities of current funds related to the reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures in the case of normal replacement of equipment and library holdings; (2) mandatory transfers in the case of required provisions for debt amortization and interest; and (3) non mandatory transfers for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the System, accounts are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying combined financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Regents. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the Board of Regents retains full control to use in achieving any of its institutional purposes.

Endowment and Similar Funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. Term endowment funds are like endowment funds, except that all or part of the principal may be utilized after a stated period of time or upon the occurrence of a certain event. Funds Functioning as Endowments are funds that the Board of Regents has approved to be used as endowments. A restricted Fund Functioning as an Endowment is created when a donor specifies how a gift, such as a scholarship, is to be used, but does not state when it is to be expended. All or part of such funds may be invested or expended immediately.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investment of Endowment and Similar Funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the appropriate unrestricted fund. Restricted gifts, grants, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes. Contract and grant awards funds received, but unexpended, during the current reporting period are shown as additions to fund balances in Restricted Current Funds.

The different fund groups used at the System are as follows:

Current Funds

Funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current funds are segregated into separate balanced fund groups as follows:

Educational and General

Funds for instruction, departmental research, libraries, physical plant operation, administration, institutional expense, and other items relating to instruction.

Designated

Funds arising from sources that have been designated by the Board of Regents to be used for special purposes. This fund distinguishes such internally designated funds from externally restricted funds as well as other current funds. Service department funds, revolving and clearing accounts, are also included in this fund group.

Auxiliary Enterprises

Funds for activities which furnish service to students, faculty, or staff for which charges are made that are directly related to, although not necessarily equal to, the cost of the service, such as residence halls, food services, and bookstores.

Restricted

Funds available for current purposes, the use of which has been restricted by outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Loan Funds

Funds available for loans to students, faculty, and staff.

Endowment and Similar Funds - State

Funds comprising the Permanent University Fund (PUF), a state endowment established by the Texas Constitution of 1876 through the appropriation of land grants. The Constitution prohibits the expenditure of principal; therefore, gains and losses on sales of securities remain in the PUF, as well as the mineral income from the PUF lands. The Constitution mandates that all surface income from the PUF lands (i.e., grazing leases and land easements), as well as all dividend and interest income, flow into the Available University Fund described below.

Endowment and Similar Funds - Other Than State

Funds subject to restrictions of endowment and trust instruments, requiring that principal be maintained and that only the income be utilized. Funds may include Endowments, Term Endowments, and Funds Functioning as Endowments.

Annuity and Life Income Funds

The Annuity Funds group consists of funds donated to an institution on the condition that the institution pay a stipulated amount of the funds to the donor or designated individual for a specified time or until the time of death of the annuitant. The Life Income Funds group consists of funds contributed to an institution subject to the requirement that the institution periodically pay the income earned on the assets (less management expenses) to designated beneficiaries.

Available University Fund

Funds created by the aforementioned income from the Permanent University Fund. The primary purpose of these funds is for the payment of debt service on the Permanent University Fund bonds. After debt service requirements are met, under present Legislative authority, the Fund may be used for operating expenses as well as for repair and remodeling projects and permanent improvements at certain component institutions of the System. The System has established a separate "Available University Fund" group due to the unique manner in which it functions.

Plant Funds

Plant funds are segregated into the following separately balanced fund groups:

Unexpended

Funds which account for the unexpended resources derived from various sources for the construction, rehabilitation, and acquisition of physical properties for institutional purposes.

Renewals and Replacements

Funds accumulated for the renewal and replacement of physical plant properties.

Retirement of Indebtedness

Funds accumulated to meet debt service charges and the retirement of indebtedness.

Investment in Plant

Funds already expended for plant properties and construction in progress; however, this does not include any long-lived assets held as investments in Endowment and Similar Funds and the Available University Fund. Physical properties are stated at cost at date of acquisition or at fair market value at the date of donation for gifts. Plant Fund bonded indebtedness represented by expended proceeds is reported as a liability of the Investment in Plant fund group. Depreciation on physical plant and equipment is not recorded.

Agency Funds

Funds held by the System as custodial or fiscal agent for students, faculty members, and/or others.

Memorandum Totals

The Combined Balance Sheet, the Combined Statement of Changes in Fund Balances and the Combined Statement of Current Funds Revenues and Expenditures are shown with memorandum totals for the prior year. The memorandum totals are presented only to facilitate financial analysis and do not purport to present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Certain reclassifications have been made to prior year memorandum totals for purposes of comparability with current year presentation.

Investments

Investments are carried at cost or, if donated, at fair market value at date of donation, adjusted for amortization of any premium or discount computed on the "scientific" basis.

On September 1, 1996, the System implemented Statement No. 28 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Securities Lending Transactions*. Primarily, this statement requires that securities lent and certain collateral received be reported as assets in the balance sheet. Liabilities resulting from these transactions should also be presented. Furthermore, the costs of securities lending transactions are to be reported as expenditures rather than with investment revenue. Where material, the prior year memorandum totals have been restated to reflect this change in accounting principles.

Fund Balances

For Balance Sheet purposes, unrestricted fund balances are reported as reserved and unreserved. Reserved fund balances include claims against resources that have not materialized, such as encumbrances, orders and contracts outstanding, and state appropriations to be lapsed. Also presented as reserved are assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure (i.e., net accounts receivable, prepaid expenses, travel advances, and certain inventories).

Unreserved fund balances are segregated into unreserved-allocated and unreserved-unallocated. Portions of fund balance used to identify plans for or restrictions on the future use of financial resources are reported as unreserved-allocated. Allocated fund balances are supported by definitive plans approved by the Board of Regents or institutional management and may include provisions for future operating budgets, provisions for service department operations, and funds functioning as endowments. Fund balances remaining after reductions for reserves and unreserved-allocated balances are identified and reported as unreserved-unallocated.

OTHER SIGNIFICANT ACCOUNTING POLICIES

1. Authorized Investments

The System is authorized to invest funds, as provided in Section 51.0031 of the Texas Higher Education Code and the Constitution of the State of Texas, under prudent person investment standards. Such investments include various fixed income and equity type securities. The investments of the System are governed by various investment policies as approved by the Board of Regents.

2. Deposits and Investments

DEPOSITS OF CASH IN BANK

The carrying amount of \$(25,328,362) for Cash in Bank (including restricted assets) is presented below.

The bank balance of the System has been classified according to the following risk categories.

- Category 1:** Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity
- Category 2:** Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name
- Category 3:** Uncollateralized (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the governmental entity's name).

Deposits for the Reporting Entity are:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Primary Government	\$ (25,709,585)	50,975,383	50,270,431	--	704,952
Discretely Presented Component Units	381,223	306,028	200,000	--	106,028
Reporting Entity	<u>\$ (25,328,362)</u>	<u>51,281,411</u>	<u>50,470,431</u>	<u>--</u>	<u>810,980</u>

<u>Cash and Deposits</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Bank Deposits			
Demand Deposits	\$ (29,315,070)	281,223	(29,033,847)
Certificates of Deposits	<u>3,605,485</u>	<u>100,000</u>	<u>3,705,485</u>
	<u>(25,709,585)</u>	<u>381,223</u>	<u>(25,328,362)</u>
Cash and Cash Equivalents			
Petty Cash on Hand	3,977,443	--	3,977,443
Local Funds in State Treasury	236,488,095	--	236,488,095
Reimbursements in Transit	<u>3,939,726</u>	<u>--</u>	<u>3,939,726</u>
	<u>244,405,264</u>	<u>--</u>	<u>244,405,264</u>
Total Cash and Deposits	<u>\$ 218,695,679</u>	<u>381,223</u>	<u>219,076,902</u>

INVESTMENTS

To comply with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the System's investments are categorized in the tabulation titled "Investment Categories" to give an indication of credit risk assumed by the System at fiscal year-end.

Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral

protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

- Category 1: Investments that are insured or registered or for which the securities are held by the governmental entity or its agent in the governmental entity's name.
- Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the governmental entity's name.
- Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the governmental entity's name.

Investment Categories - Primary Government

Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$ 1,936,205,948			1,936,205,948	1,982,772,613
Municipal Bonds	127,986,168			127,986,168	131,699,555
Corporate Bonds	1,574,101,097			1,574,101,097	1,642,623,091
Corporate Stocks	2,865,692,498			2,865,692,498	4,546,620,147
Commercial Paper	100,000,000			100,000,000	100,000,000
Other Investments	833,697,298			833,697,298	894,345,244
TOTAL	\$ 7,437,683,009	-	-	7,437,683,009	9,298,060,650
Uncategorized Investments:					
Mutual Funds				1,263,677,713	1,313,181,089
Mineral Interests				251,164	251,164
Real Estate				60,665,034	140,465,518
Securities Lending Short-term Collateral Investment Pool				417,977,652	417,977,652
Investments Held by Broker/Dealers Under Securities Lending Agreements:					
U.S. Government Securities				347,802,067	363,800,681
Corporate Bonds				49,458,349	51,338,708
Corporate Stock				12,569,650	19,823,021
TOTAL INVESTMENTS				\$ 9,590,084,638	11,604,898,483
Total Cash and Deposits				\$ 218,695,679	
Total Investments				9,590,084,638	
TOTAL DEPOSITS AND INVESTMENTS				\$ 9,808,780,317	
Cash and Temporary Investments (Exhibit A, Primary Government)				\$ 1,087,808,212	
Investments (Exhibit A, Primary Government)				8,720,972,105	
TOTAL DEPOSITS AND INVESTMENTS (Primary Government)				\$ 9,808,780,317	

Investment Categories - Discretely Presented Component Units

Type of Security	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Treasury Bills	\$ 3,913,037			3,913,037	3,919,024
Other Investments	1,280,464			1,280,464	1,280,464
TOTAL INVESTMENTS	\$ 5,193,501	--	--	5,193,501	5,199,488
Total Cash and Deposits				\$ 381,223	
Total Investments				5,193,501	
TOTAL DEPOSITS AND INVESTMENTS				\$ 5,574,724	
Cash and Temporary Investments (Exhibit A, Component Units)				\$ 5,574,724	
Investments (Exhibit A, Component Units)				--	
TOTAL DEPOSITS AND INVESTMENTS (Component Units)				\$ 5,574,724	

Reconciliation of Deposits and Investments between Note 2 and Exhibit A for the reporting entity as a whole:

Total Deposits and Investments:

Per Note 2:		Per Exhibit A (Reporting Entity):	
Primary Government	\$ 9,808,780,317	Cash and Temporary Investments	\$ 1,093,382,936
Component Units	<u>5,574,724</u>	Investments	<u>8,720,972,105</u>
Total	<u>\$ 9,814,355,041</u>	Total	<u>\$ 9,814,355,041</u>

SECURITIES LENDING

In accordance with the prudent person investment standards, the System participates in a securities lending program. The System is authorized to lend any securities held by the System's custodian, except mortgage-backed securities and collateralized mortgage obligations. The System began the program, under a contract with the System's lending agent, in September 1, 1995 and had \$434,962,410 of securities out on loan to brokers/dealers at August 31, 1997. These securities on loan are presented as unclassified in the preceding schedule of custodial credit risk. In security lending transaction, the System transfers its securities to brokers/dealers for collateral, which may be cash, securities issued or guaranteed by the United States government or its agencies, and irrevocable bank letters of credit and simultaneously agrees to return the collateral for the same securities in the future. The lending agent for the System invests the cash received as collateral and, if the returns on those investments exceed the "rebate" paid to borrowers of the securities, the security lending transactions generate income after a lending fee split with the agent. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from the System's resources. The borrower will pay a "loan premium or fee" for the securities loan, thus generating income for the System. The collateral received will have a market value of 102% of the loaned securities of United States issuers. If the market value of the collateral held in connection with loans of securities of United States issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-United States issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. There were no non-United States issuers loaned during the year ended August 31, 1997. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes to borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agent require them to indemnify the System if the borrowers fail to return the securities. Cash collateral received by the lending agent on behalf of the System is invested and reinvested in accordance with investment guidelines established in the security lending contract. There were no significant violations of legal or contractual provisions, no borrower of lending agent default losses, and no recoveries of prior-period losses during the year.

DERIVATIVE INVESTING

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from, changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives. These mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, Planned Amortization Class (PACs) and Collateralized Mortgage Obligations (CMOs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. The System's derivative investments at August 31, 1997 were exclusively comprised of CMOs. System's investments in derivatives comprises 4.8% of total investments as of August 31, 1997 with a carrying value and market value of \$414,894,511 and \$427,230,503, respectively.

REVERSE REPURCHASE AGREEMENTS

While the System, by statute, is authorized to enter into reverse repurchase agreements, no transactions were entered into during the year.

3. Bonds Payable

At August 31, 1997, the System had outstanding bonds payable of \$1,095,055,000 as summarized below:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Outstanding Principal</u>
Permanent University Fund			
Refunding Bonds Series 1988	6.8%	1998	\$ 8,500,000
Refunding Bonds Series 1991	6.0-9.5%	1998-2001	41,405,000
Refunding Bonds Series 1992A	5.3-6.25%	1998-2013	192,360,000
Bonds Series 1992B	5.4-6.0%	1998-2002	15,400,000
Refunding Bonds Series 1996	4.5-6.0%	1998-2013	261,535,000
			<u>519,200,000</u>
General Tuition Revenue			
Refunding Bonds Series 1992	4.9-5.5%	1998-2002	<u>32,925,000</u>
Revenue Financing System			
Refunding Bonds Series 1991A	6.2-7.0%	1998-2007	94,095,000
Refunding Bonds Series 1991B	6.2-6.8%	1998-2013	56,450,000
Refunding Bonds Series 1991C	6.2-6.5%	1998-2001	1,950,000
Bonds Series 1995A	4.5-6.0%	1998-2017	72,035,000
Bonds Series 1996A	4.7-6.0%	1998-2016	70,515,000
Bonds Series 1996B	4.7-6.0%	1998-2016	226,335,000
			<u>521,380,000</u>
Constitutional Appropriation			
Bonds Series 1995	4.0-6.0%	1998-2005	<u>21,550,000</u>
Total			\$ <u>1,095,055,000</u>

The Combined Balance Sheet at August 31, 1997 does not include \$551 million of bonds payable which were fully defeased in prior fiscal years. Direct obligations of the United States of America in amounts, maturities, and bearing interest at rates sufficient to provide funds to pay in full principal, redemption premium, and interest to maturity, or redemption on the defeased bonds, are being held by an escrow agent.

General information related to bonds outstanding is summarized below:

- **Permanent University Fund Refunding Bonds, Series 1988**
Purpose: To refund \$100,000,000 of PUF Variable Rate Notes, Series A.
Date Issued: May 5, 1988
Authorized: \$100,000,000 Issued: \$100,000,000
Source of Revenue for Debt Service: Available University Fund

- **Permanent University Fund Refunding Bonds, Series 1991**
Purpose: To refund \$250,000,000 of PUF Variable Rate Notes.
Date Issued: May 9, 1991
Authorized: \$260,000,000 Issued: \$254,230,000
Source of Revenue for Debt Service: Available University Fund

- **Permanent University Fund Refunding Bonds, Series 1992A**
Purpose: To refund \$168,370,000 principal amount of Permanent University Fund Refunding Bonds, Series 1985, maturing on July 1 in the years 1996 - 2004.
Date Issued: June 25, 1992
Authorized: \$205,000,000 Issued: \$196,015,000
Source of Revenue for Debt Service: Available University Fund

- **Permanent University Fund Bonds, Series 1992B**
Purpose: To refund \$16,000,000 principal amount of Permanent University Fund Variable Rate Notes, Series A, and to provide new money.
Date Issued: April 29, 1992
Authorized: \$85,000,000 Issued: \$80,000,000
Source of Revenue for Debt Service: Available University Fund

- **Permanent University Fund Refunding Bonds, Series 1996**
Purpose: To refund \$246,185,000 principal amount of Permanent University Fund Refunding Bonds, Series 1988, 1991 and 1992B, maturing on July 1 in the years 1999 - 2013.
Date Issued: March 7, 1996
Authorized: \$280,000,000 Issued: \$263,945,000
Source of Revenue for Debt Service: Available University Fund

- **General Tuition Revenue Refunding Bonds, Series 1992**
Purpose: To refund \$31,305,000 of General Tuition Revenue Refunding Bonds, Series 1986.
Date Issued: January 12, 1993
Authorized: \$40,000,000 Issued: \$35,340,000
Source of Revenue for Debt Service: (a) the pledged general tuition, (b) all interest, income and earnings derived from the deposit and investment of the Interest and Sinking Fund, and (c) any additional revenues, income, receipts or other resources whatsoever received or to be received from any public or private source, whether pursuant to an agreement or otherwise, which may be subsequently pledged to the payment of the bonds or the additional bonds.

- **Revenue Financing System Refunding Bonds, Series 1991A**
Purpose: To refund \$191,100,000 of General Revenue Refunding Bonds, Series 1986.
Date Issued: March 19, 1991
Authorized: \$215,000,000 Issued: \$187,535,000
Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

- Revenue Financing System Refunding Bonds, Series 1991B
 Purpose: To refund \$24,760,000 of Revenue Financing System Commercial Paper Notes, and to provide new money of \$65,000,000.
 Date Issued: March 19, 1991
 Authorized: \$95,000,000 Issued: \$91,045,000
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Refunding Bonds, Series 1991C
 Purpose: To partially refund \$5,694,000 of nine different U.T. Pan American bond issues.
 Date Issued: April 22, 1991
 Authorized: \$6,000,000 Issued: \$4,145,000
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1995A
 Purpose: To refund \$34,833,000 of Revenue Financing System Commercial Paper Notes, to refund \$4,525,000 of U.T. Pan American Tuition Revenue Refunding Bonds, Series 1986 and to provide new money of \$35,167,000.
 Date Issued: July 12, 1995
 Authorized: \$232,000,000 Issued: \$74,945,000
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1996A
 Purpose: To provide new money.
 Date Issued: February 29, 1996
 Authorized: \$78,125,000 Issued: \$72,600,000
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
- Revenue Financing System Bonds, Series 1996B
 Purpose: To refund a \$18,355,000 portion of the Revenue Financing System Refunding Bonds, Series 1991A, to refund a \$20,035,000 portion of the Revenue Financing System Refunding Bonds, Series 1991B, to refund \$106,855,000 of Revenue Financing System Commercial Paper Notes, Series A and to provide new money of \$88,400,000.
 Date Issued: February 29, 1996
 Authorized: \$271,875,000 Issued: \$232,135,000
 Source of Revenue for Debt Service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.

· Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995

Purpose: To provide new money.

Date Issued: January 10, 1996

Authorized: \$26,000,000 Issued: \$26,000,000

Source of Revenue for Debt Service: Pledged Revenues consist of up to 50% of the money allocated annually to the Board for The University of Texas - Pan American from the total amount appropriated annually by Article VII, Section 17 of the Texas Constitution and Chapter 62, Texas Education Code, out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution, during a ten-year period starting with fiscal year that began September 1, 1995 and ending with the fiscal year that ends on August 31, 2005.

General information related to bonds retired during 1997 is summarized below:

· General Tuition Revenue Refunding Bonds, Series 1986

Purpose: To refund \$106,005,000 of General Tuition Revenue Bonds, Series 1971, 1972, and 1972-A and Refunding Bonds, Series 1978.

Date Issued: June 26, 1986

Authorized: \$85,365,000 Issued: \$85,365,000

Source of Revenue for Debt Service: (a) the pledged general tuition; (b) all interest income and earnings derived from the deposit and investment of the Interest and Sinking Fund and Reserve Fund established pursuant to the bond resolution; and (c) any additional revenues, income, receipts, or other resources whatsoever received or to be received from any public or private source, whether pursuant to an agreement or otherwise, which hereafter may be pledged to the payment of the bonds or the additional bonds.

Long-term obligations are due in annual installments varying from \$5,628,200 in fiscal year 2017 to \$124,489,414 in fiscal year 1998. The interest rates range from 4.0% to 9.5%, with the final installment due in 2017. The principal and interest expense for the next five years and beyond are summarized below for bonds issued:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 62,885,000	61,604,414	124,489,414
1999	64,770,000	57,998,389	122,768,389
2000	66,840,000	54,441,004	121,281,004
2001	69,380,000	50,285,294	119,665,294
2002	68,035,000	46,257,149	114,292,149
Beyond Five Years	<u>763,145,000</u>	<u>275,629,286</u>	<u>1,038,774,286</u>
Total	\$ <u>1,095,055,000</u>	<u>546,215,536</u>	<u>1,641,270,536</u>

On November 13, 1997, the System's Board of Regents authorized the issuance of Permanent University Fund (PUF) Bonds and Revenue Financial System (RFS) Bonds not to exceed \$130 million and \$127 million, respectively. As required, the RFS bonds received approval from the Texas Bond Review Board on November 20, 1997. The PUF bonds will be used to refund up to \$80 million of PUF Variable Rate Notes, Series A and to provide new money while the RFS bonds will be used to refund up to \$119,959,000 of RFS Commercial Paper Notes, Series A.

4. Notes and Loans Payable

At August 31, 1997, the System had outstanding Notes and Loans Payable of \$331,171,838. A summary of changes in Notes and Loans Payable is as follows:

Description	Balances 9/1/96	Increases	Decreases	Balances 8/31/97
Permanent University Fund				
Variable Rate Notes, Series A	\$ 65,000,000	85,000,000		150,000,000
Revenue Financing System				
Commercial Paper Notes, Series A	72,982,000	105,949,000	5,978,000	172,953,000
Loan Star Program:				
UT Arlington	1,908,911		1,102,062	806,849
UT Austin	3,652,557		752,368	2,900,189
UT Pan American	324,164		124,508	199,656
UTHSC Houston	1,262,732		524,681	738,051
UTHSC San Antonio	190,559		93,417	97,142
UTMDA Cancer Center	3,298,767			3,298,767
UT Austin - City of Austin	136,344		92,500	43,844
UTMB Galveston - Sisters of Charity	389,477		255,137	134,340
UTMDA Cancer Center - Other	16,604		16,604	--
Total	\$ 149,162,115	190,949,000	8,939,277	331,171,838

Summary of Debt Service Requirements to Maturity
Year Ending August 31,

	1998	1999	2000	2001	2002	All Other Years	Total Requirements
\$	331,051,125	1,139,337	725,047	725,047	--	--	333,640,556

General information related to notes and loans payable which in substance are not bonds is summarized as follows:

- Note or loan payable issue name: Permanent University Fund Variable Rate Notes, Series A
 - To provide new money
 - Issued date: August 23, 1994, May 2, 1996, November 6, 1996 and June 19, 1997
 - Amount: \$150,000,000
 - Source of revenue for debt service: Available University Fund
 - Interest payable in periodic installments not to exceed 270 days at a variable rate

- Note or loan payable issue name: Revenue Financing System (RFS) Commercial Paper Notes, Series A
 - To provide new money
 - Issued date: May 1, 1992 through August 31, 1997
 - Amount: \$330,044,000
 - Source of revenue for debt service: All pledged revenues, subject to the provisions of the Prior Encumbered Obligations, collectively: (a) the pledged tuition fee; (b) the pledged General Fee; and (c) any or all of the revenues, funds, and balances lawfully available to the Board and derived from and attributable to any Member of the Revenue Financing System, which are lawfully available to the Board for payments on parity debt.
 - Interest payable in periodic installments not to exceed 270 days at a variable rate

- Note or loan payable issue name: Loan Star Program
 - To purchase energy conservation equipment
 - Issued date: 1990-1995
 - Amount: \$35,431,174
 - Source of revenue for debt service: Various
 - Payable in monthly installments over a 3 to 5 year period at 4% interest

- Note or loan payable issue name: City of Austin (U.T. Austin)
 - To purchase land
 - Issued date: 1994
 - Amount: \$146,056
 - Source of revenue for debt service: Various
 - Payable in periodic installments over a 2 year period at 0% interest

- Note or loan payable issue name: Sisters of Charity
 - To purchase equipment in two clinics for Family Healthcare Corp., a component unit of UTMB Galveston
 - Issued date: 1996
 - Amount: \$514,000
 - Source of revenue for debt service: Professional fees
 - Payable in monthly installments over a 2 year period at 6% interest

On October 3, 1997 and November 3, 1997, the System issued a combined total of \$12,017,000 of additional RFS Commercial Paper Notes, Series A. On November 13, 1997, the System's Board of Regents approved an increase in the maximum amount which can be borrowed under the RFS Commercial Paper Notes program from \$250 million to \$350 million. The increase was ratified by the Texas Bond Review Board on November 20, 1997.

5. Employees' Retirement Programs

TEACHER RETIREMENT SYSTEM (TRS)

The State of Texas has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer public employee retirement system administered by the Teacher Retirement System of Texas. TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the State.

All System personnel employed in a position on a half-time or greater basis are eligible for membership in the TRS retirement plan. Members with at least five years of service at age 65, at least 20 years of service at age 60, or at least 30 years of service at age 55 have a vested right to retirement benefits. Additionally, reduced benefits are available at age 55 with at least 5 years of service or at any age below 55 with 30 years of service. Members are fully vested after five years of service and are entitled to any benefits for which the eligibility requirements have been met.

TRS contribution rates for both employers and employees are actuarially determined and approved by the State Legislature. Depending upon the source of funding for the employee's compensation, the State or the System contribute a percentage of participant salaries totaling 6.0 percent of annual compensation. The System's total payroll for all employees during the year was \$2,398,003,979 and \$1,138,495,415 of such amount related to employees covered by the TRS retirement plan. During the year, contributions of approximately \$45,984,413 were made by the State and contributions of \$19,071,817 were made by the System. Contributions by employees are 6.4 percent of gross earnings and aggregated approximately \$72,864,508 during the year which were held by the System and paid to TRS.

TRS does not separately account for each of its component government agencies, since the Retirement System itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Total unfunded pension benefit obligation of the TRS as of August 31, 1996 (date of the latest actuarial valuation) was as follows:

	<u>(in billions)</u>
Total pension benefit obligation	\$ 45.4
Less: Net assets available for benefit obligation	<u>50.1</u>
Unfunded pension benefit obligation	<u>\$ (4.7)</u>

Additional information and ten-year historical trend information can be obtained from the separately issued Teacher Retirement System of Texas Comprehensive Annual Financial Report.

OPTIONAL RETIREMENT PROGRAM (ORP)

The State has also established an optional retirement program for institutions of higher education. Participation in the ORP is in lieu of participation in the Teacher Retirement System. The ORP provides for the purchase of annuity contracts. Participants are vested in the employer contributions after one year of service. The contributory percentages of participant salaries currently provided by the State and each participant are 6.0 percent and 6.65 percent, respectively. Depending upon the source of funding for the employee's compensation, the System may be required to make the employer contributions in lieu of the State. Additionally, the State or the System may make additional contributions above 6.0 percent depending upon the employee's date of hire. The System's total payroll for all employees during the year was \$2,398,003,979, and \$914,702,731 of such amount related to employees covered by the ORP. During the year contributions of approximately \$38,399,274 were made by the State and contributions of \$26,484,291 were made by the System. Employees contributed \$60,804,632 to the ORP. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program.

EMPLOYEES RETIREMENT SYSTEM (ERS)

Certain employees at U.T. Medical Branch at Galveston participate in the Employees Retirement System of Texas. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit pension plan. ERS covers System employees who are not covered by the Teacher Retirement System or the optional retirement program. Benefits vest after five years of credited service. Employees may retire at age 50 with 30 years, age 55 with 25 years, and age 60 with five years of service.

The ERS plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. Additional payment options are available. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined. The Employees Retirement System's contribution requirement, calculated using entry age normal actuarial cost method, is established through State statute.

The funding policy requires monthly contributions by both the state and employees. For the biennium beginning September 1, 1995, the contribution required by the state is 6.0 percent of payroll. Of System's total payroll, \$48,597,975 related to employees covered by ERS. During the year, contributions of approximately \$2,915,878 were made by the State and no contributions were made by the System. Employees contributed \$2,915,878 to this retirement plan.

Additional information can be obtained from the separately issued ERS Comprehensive Annual Financial Report.

PHYSICIANS REFERRAL SERVICE SUPPLEMENTAL RETIREMENT PLAN (SRP)/RETIREMENT BENEFIT PLAN (RBP)

The University of Texas M.D. Anderson Cancer Center (the Cancer Center) has established, primarily for the physicians of its Physicians Referral Service, the Physicians Referral Service Supplemental Retirement Plan/Retirement Benefit Plan of the Anderson Hospital (collectively "the Plan"). The Plan is a non-qualified plan described by Section 457(f) of the Internal Revenue Code of 1986, as amended. The Plan is reported on the accrual basis of accounting in Agency Funds. Assets of the Plan remain subject to the claims of the general creditors of the Cancer Center.

In general, only physicians hired before July 1, 1986 participate in the SRP. The remainder of eligible employees participate in the RBP. Retirement benefits are available to persons who have reached the normal retirement age (55 for the RBP, 65 for the SRP) with five years of service. Early retirement benefits are available under the SRP. The Cancer Center's contribution to the Plan was \$3,995,312 for the year ended August 31, 1997. Additional information can be obtained from the separately issued financial statements of the Plan.

6. Deferred Compensation Program

System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOVT. CODE ANN., Sec. 609.001. The deferred compensation plan is administered by the Employees Retirement System.

The State's 457 plan complies with the Internal Revenue Code Sec. 457. Deductions, purchased investments and earnings attributed to the 457 plan are the property of the State subject only to the claims of the State's general creditors. Participant's rights under the plan are equal to those of the general creditors of the State in an amount equal to the fair market value of the 457 account for each participant. The State has no liability under the 457 plan and it is unlikely that plan assets will be used to satisfy the claims of general creditors in the future.

7. Compensated Absences

Full-time state employees earn annual leave from seven to fourteen hours per month depending upon the respective employees' years of state employment. The State's policy is that an employee may carry his/her accrued leave forward from one fiscal year to another fiscal year, with a maximum number of hours up to 376 for those employees with 20 or more years of state service. Employees with at least six months of state service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. The System recognized the accrued liability for the unpaid annual leave as of August 31, 1997. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The System's policy is to recognize the cost of sick leave when paid, and the liability is not shown in the combined financial statements since experience indicates the expenditure for sick leave to be minimal.

8. Pending Lawsuits and Claims

On August 31, 1997, various lawsuits and claims involving the System were pending. None of these suits has the potential to exceed the materiality level of \$10 million established by the State Auditor.

The ultimate liability with respect to litigation and other claims asserted against the System cannot be reasonably estimated at this time. Such liability is not likely to have a material effect on System accounts to the extent not provided for by insurance or otherwise.

9. Capital Lease Obligations

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of August 31, 1997 is as follows:

<u>Class of Property</u>		<u>Original Capitalized Cost</u>
Equipment	\$	3,892,935
Buildings		1,970,661
Total	\$	<u>5,863,596</u>

The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 1997.

Fiscal year	Future Minimum Lease Payments
1998	\$ 1,274,218
1999	612,843
2000	247,759
2001	3,150
Future Minimum Lease Payments	2,137,970
Less Interest	161,808
Net Present Value of Future Minimum Lease Payments	\$ 1,976,162

10. Operating Lease Obligations and Rental Agreements

Included in current expenditures and Agency Fund disbursements are the following amounts of rent paid or due under operating leases.

Fund Group	Fiscal Year Ended August 31,	
	1997	1996
Educational and General	\$ 10,956,466	\$ 11,069,148
Designated	12,534,831	10,248,889
Auxiliary Enterprises	588,346	268,083
Restricted	3,153,461	2,171,857
Plant	11,126	20,912
Agency	501,597	23,088
Total	\$ 27,745,827	\$ 23,801,977

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 1997 are as follows:

Fiscal year	Future Minimum Lease Payments
1998	\$ 11,936,129
1999	8,692,657
2000	6,966,298
2001	3,238,219
2002	2,213,988
2003 and Beyond	1,622,596
Total	\$ 34,669,887

11. Funds Held in Trust by Others

The balances, or transactions, of funds held in trust by others on behalf of U.T. System are not reflected in the financial statements. As of August 31, 1997, there were 181 such funds for the benefit of the System. Based upon the most recent available information, the assets of these funds are reported by the trustees at values totaling approximately \$552,714,396.

12. Contract and Grant Awards

Contract and grant awards are accounted for in accordance with the requirements of the AICPA Industry Audit Guide, *Audits of Colleges and Universities*. Funds received, but not expended during the reporting period, are shown as additions to fund balance on Exhibit B. Revenues are recognized on Exhibit C as funds are actually expended. Funds expended, but not collected, are reported as Federal and Non-federal Grants Receivable on Exhibit A. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant award funds already committed (e.g., multiyear awards) or funds awarded during fiscal year 1997 for which monies have not been received nor funds

expended totaled \$577,539,161. Of this amount, \$473,416,302 was from Federal Contract and Grant Awards, \$16,115,109 was from State Contract and Grant Awards, \$7,525,707 from Local Contract and Grant Awards, and \$80,482,043 from Private Contract and Grant Awards.

13. Risk Financing and Related Insurance

The System has four self-insurance plans providing coverage in the following areas: employee health and dental, workers' compensation, medical professional liability, and property protection. The employee health and dental, medical professional liability, workers' compensation, and property protection insurance plans are funded. The property protection plan has purchased reinsurance which provides coverage for individual claims exceeding \$25,000 subject to a per occurrence deductible of \$100,000 to \$250,000 and an annual aggregate deductible of \$5,000,000. Claims are subject to a \$25,000 deductible once the annual aggregate deductible is met. The maximum annual reimbursement under this plan is \$1 billion per occurrence and has a \$6.1 billion total policy limit. The property protection plan also provides windstorm coverage for U.T. Medical Branch at Galveston. The deductible for this portion of the plan is the greater of one percent of the total insured value of each building or \$100,000 per building, subject to various exceptions for specific buildings. Self-insurance plans are reported in the Designated Fund under Unrestricted Current Funds.

Insurance claims which were Incurred But Not Reported (IBNR) were actuarially determined for the workers' compensation and medical professional liability self-insurance plans. The IBNR liabilities for the health and dental, and property protection self-insurance plans were not actuarially determined but rather reasonably estimated based on prior claims experience. Changes in the System's claims liabilities for the various self-insurance plans were:

Plan	IBNR Liability September 1, 1996	Current Year Claims and Changes in Estimates	Claims Payments	IBNR Liability August 31, 1997
Employee Health and Dental	\$ 25,412,000	193,512,853	(195,754,853)	23,170,000
Workers' Compensation	24,538,000	6,608,049	(6,603,049)	24,543,000
Medical Professional Liability	133,215,003	7,818,162	(18,444,524)	122,588,641
Property Protection	-	2,984,695	(1,331,023)	1,653,672
Total	\$ 183,165,003	210,923,759	(222,133,449)	171,955,313

The State provides coverage for unemployment benefits from appropriations made to other state agencies for System employees. The current General Appropriations Act provides that the System must reimburse the State from System appropriations one-half of the unemployment benefits paid for former employees. As amounts are not material, no liability for unemployment claims incurred but not reported has been recorded at August 31, 1997.

14. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provided certain health care and life insurance benefits for retired employees, in accordance with State statutes. Substantially all of the employees may become eligible for the health and life insurance benefits if they reach normal retirement age while working for the State. Currently there are 8,218 retirees who are eligible for these benefits. Similar benefits for active employees are provided through a self-insurance program and health maintenance organizations, whose premiums are based on benefits paid during the previous year. Depending upon the status of the employee at the time of retirement, the State or the System recognizes the cost of providing these benefits by expensing the annual insurance premiums. For the fiscal year ended August 31, 1997, the monthly contribution by the State or the System per full-time employee/retiree was \$186.31 for those enrolled in the "employee only" category, \$292.13 for those in the "employee/spouse" category, \$257.16 for those in the "employee/children" category, and \$362.98 for those in the "employee/family" category. This contribution paid all of the "employee/retiree only" premiums. The employee/retiree was required to pay a portion of the cost of dependent coverage. For the fiscal year ended August 31, 1997, the cost of providing those benefits for the retirees was \$12,269,742 for the State and \$4,764,522 for the System.

15. Commitments and Contingencies

At August 31, 1997, the System had various commitments to buy and sell securities. Purchase commitments totaled \$31,128,218, while sales commitments totaled \$13,967,528 for securities with a book value of \$10,879,188.

The System, through the Permanent University Fund (PUF) and the Long Term Fund (LTF), has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to \$506.9 million and \$128.3 million for the PUF and LTF, respectively, as of August 31, 1997.

Debt service on PUF bonds and notes are equally and ratably secured by and payable from a first lien and pledge of the System's interest in the Available University Fund (AUF). The debt service is scheduled to be \$54,267,067 in fiscal year 1998. The AUF's fund balance totaled \$135,621,916 at August 31, 1997.

The estimated cost to complete construction in progress at August 31, 1997 is \$447,288,736 of which \$47,801,593 is to be provided from PUF bond proceeds; \$112,111,845 from gifts and grants; \$123,546,424 from revenue bonds; and \$163,828,874 from other sources.

16. Interfund Borrowing

All interfund borrowing has been made from unrestricted funds and is payable within one year without interest.

17. Restatements

Fund Balances as of September 1, 1996 were restated as follows:

	Educational & General	Designated	Restricted
Fund Balance, September 1, 1996	\$ 381,859,832	758,465,733	494,942,499
Restatements:			
Higher Education Assistance Funds	6,225,344	(6,225,344)	
Balance in State Appropriations	(3,995,952)		
Reclassification of Restricted Funds	58,500	1,855,198	(1,913,698)
Fund Balance, September 1, 1996 - Restated	\$ 384,147,724	754,095,587	493,028,801

A change in accounting policy mandated by the State Comptroller of Public Accounts moved Higher Education Assistance Fund (HEAF) revenue from Designated Funds to Educational and General Funds. The beginning fund balance of HEAF totaling \$6,225,344 was reclassified.

Balance in State Appropriations and related fund balance were restated due to a change in accounting policy mandated by the State Comptroller of Public Accounts. In contrast with previous years, appropriation balances no longer include balances related to staff benefits and are required to be based on the State Comptroller's Uniform Statewide Accounting System.

Certain balances were reclassified from Restricted Funds to Designated Funds and Educational and General Funds to more appropriately reflect the nature of the funds.

18. Property, Plant & Equipment

A summary of changes in Investment in Plant Fund assets is as follows:

	Balance 9/1/96	Additions	Deletions	Reclassi- fications	Balance 8/31/97
Land	\$ 156,224,920	2,251,773	314,328	74,052	158,236,417
Buildings Equipment and Library Books	2,786,092,990	36,645,667	282,202	238,020,234	3,060,476,689
Improvements (Other than Buildings)	1,913,846,697	185,333,921	77,520,072	35,663	2,021,696,209
Museums and Art Collections	289,232,996	239,976	14,771	4,463,612	293,921,813
Construction in Progress	67,784,685	1,940,757	-	-	69,725,442
	<u>443,755,859</u>	<u>246,586,165</u>	<u>1,158,718</u>	<u>(242,593,561)</u>	<u>446,589,745</u>
Totals	\$ <u>5,656,938,147</u>	<u>472,998,259</u>	<u>79,290,091</u>	<u>--</u>	<u>6,050,646,315</u>

19. Undistributed Permanent University Fund Interest Income

By acts of the Legislature and provision of the Constitution, the net income of the Permanent University Fund is divided, two-thirds to The University of Texas System and one-third to the Texas A&M University System. At August 31, 1997, \$48,668,794 of undistributed interest was accrued and is reported in the Available University Fund as follows: \$32,445,863 as a Reserve for Undistributed Income - The University of Texas System and \$16,222,931 as a Reserve for Undistributed Income - Texas A&M University System.

20. Related Parties

There are four foundations which are nonprofit organizations with the sole purpose of supporting various activities of the System. The foundations solicit donations and act as coordinators of gifts made by other parties. The foundations remitted restricted gifts of \$4,518,670 and unrestricted gifts of \$141,773 to the System during the year ended August 31, 1997. During the fiscal year, the System furnished certain services, such as office space, utilities and some staff assistance, to the foundations for which the foundations reimbursed the System at cost for these services which totaled \$59,949.

Certain ex-students associations provided services on behalf of the System for which the System paid \$215,417 during the 1997 fiscal year. These services included maintaining records on the students who had graduated from the universities within the System. In addition to the amount paid, office space and utilities were provided to the associations by the System.

21. The Financial Reporting Entity

Blended Component Units

U.T. Southwestern Health Systems, Inc. is governed by a three member board appointed by U.T. Southwestern Medical Center. Although it is legally separate from the university, U.T. Southwestern Health Systems, Inc. is reported as if it were part of U.T. Southwestern Medical Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 1997.

Family Healthcare Centers, Inc. is governed by a six member board appointed by U.T. Medical Branch at Galveston. Although it is legally separate from the university, Family Healthcare Centers, Inc. is reported as if it were part of U.T. Medical Branch at Galveston because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 1997.

University Care Plus, Inc. (UCP) is governed by a three member board appointed by U.T. Health Science Center at Houston. Although it is legally separate from the university, University Care Plus, Inc. is reported as if it were part of U.T. Health Science Center at Houston because its primary purpose is to perform services as an integral part of the institution. On April 21, 1997, UCP's fiscal year end was changed from September 30 to August 31. The activity for the eleven month period ended August 31, 1997 has been blended into the financial statements.

University Physicians Group, Inc. is governed by a ten member board appointed by U.T. Health Science Center at San Antonio. Although it is legally separate from the university, University Physicians Group, Inc. is reported as if it were part of the U.T. Health Science Center at San Antonio because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 1997.

M.D. Anderson Physician's Network, Inc. is governed by a four member board appointed by U.T. M.D. Anderson Cancer Center. Although it is legally separate from the university, M.D. Anderson Physician's Network, Inc. is reported as if it were part of U.T. M.D. Anderson Cancer Center because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is September 30, 1997.

East Texas Quality Care Network, Inc. is governed by a three member board appointed by U.T. Health Center at Tyler. Although it is legally separate from the university, East Texas Quality Care Network, Inc. is reported as if it were part of U.T. Health Center at Tyler because its primary purpose is to perform services as an integral part of the institution. The corporation's fiscal year end is August 31, 1997.

The University of Texas Investment Management Company (UTIMCO) is governed by a nine member board appointed by the U.T. System Board of Regents. Although it is legally separate from the university, UTIMCO is reported as if it were part of U.T. System Administration because it provides services entirely to the university. On April 21, 1997, UTIMCO's fiscal year end was changed from August 31 to December 31. The activity for the four month period ended December 31, 1996 has been blended into U.T. System's financial statements.

Law Publications, Inc. is governed by a three member board appointed by U.T. Austin. Although it is legally separate from the university, Law Publications, Inc. is reported as if it were part of U.T. Austin because it provides services almost entirely to the university. The Law Publications, Inc. fiscal year end is August 31, 1997.

Continuing Legal Education, Inc. is governed by a three member board appointed by U.T. Austin. Although it is legally separate from the university, Continuing Legal Education, Inc. is reported as if it were part of U.T. Austin because it provides services almost entirely to the university. The Continuing Legal Education, Inc. fiscal year end is August 31, 1997.

Discrete Component Units

The component units column in the combined financial statements includes the financial data of the M.D. Anderson Cancer Center Outreach Corporation (Outreach) and of Texas Universities Health Plan, Inc. (TUHP).

The governing body of Outreach is appointed by the president of U.T. M.D. Anderson Cancer Center (Cancer Center). Outreach's mission is to benefit the Cancer Center by providing, directly or indirectly, assistance and benefit, financial or otherwise, through whatever means are determined by the Board of Directors, including, but not limited to, making distributions or providing services to the Cancer Center. In accomplishment of such purposes, the corporation will emphasize clinical, educational, and scientific aspects of cancer care throughout the United States and in foreign countries. The Outreach fiscal year end is September 30, 1997.

The address of Outreach is: 811 Dallas Avenue
Houston, Texas 77002

The governing body of TUHP is appointed by the System. TUHP is a non-profit corporation organized and administered solely for the purpose of aiding, assisting, supporting and acting on behalf of the System in the performance of its essential governmental function of providing higher education by securing a certificate of authority and operating a health maintenance organization. The TUHP fiscal year end is December 31, 1996. The activity for the period from August 7, 1996 (date of inception) to December 31, 1996 is presented in the financial statements.

The address of TUHP is: 700 University Boulevard
Galveston, Texas 77550

The following are the condensed financial statements of TUHP and Outreach. Complete financial statements may be obtained by contacting TUHP's or Outreach's administrative offices.

Balance Sheets

	<u>Outreach</u>	<u>TUHP</u>	<u>Total</u>
Assets			
Cash and Temporary Investments	\$ 1,358,456	4,216,268	5,574,724
Other Assets	407,417	30,295	437,712
Property, Plant and Equipment	276,207	62,459	338,666
Total Assets	<u>\$ 2,042,080</u>	<u>4,309,022</u>	<u>6,351,102</u>
Liabilities			
Current Liabilities	\$ 381,507	60,192	441,699
Total Liabilities	<u>381,507</u>	<u>60,192</u>	<u>441,699</u>
Fund Equity	<u>1,660,573</u>	<u>4,248,830</u>	<u>5,909,403</u>
Total Liabilities and Fund Equity	<u>\$ 2,042,080</u>	<u>4,309,022</u>	<u>6,351,102</u>

Statements of Revenues, Expenses and Changes in Net Assets

	<u>Outreach</u>	<u>TUHP</u>	<u>Total</u>
Operating Revenues	\$ 3,772,903	-	3,772,903
Operating Expenditures	3,231,267	21,045	3,252,312
Operating Income (Loss)	541,636	(21,045)	520,591
Net Non-operating Revenue	23,858	19,875	43,733
Net Income (Loss)	565,494	(1,170)	564,324
Fund Equity - Beginning	1,095,079	-	1,095,079
Capital Contribution	-	4,250,000	4,250,000
Fund Equity - Ending	<u>\$ 1,660,573</u>	<u>4,248,830</u>	<u>5,909,403</u>

22. Supplementary Article IX Data

1. The System does not acquire a bond on employees, instead the System has purchased a comprehensive crime policy that covers all employees.
2. The System submits information on occupied space to the Coordinating Board each fiscal year.
3. A report on consultant fees paid including their purpose, is provided to the Legislative Budget Board. Professional fee contracts for construction projects are also included. The initial report was submitted in fiscal year 1994, and is updated within 10 days of each contract issuance.
4. A comprehensive report on the operation of System aircraft is submitted to the Legislative Budget Board and the State Aircraft Pooling Board at the close of each fiscal year.
5. No exception letters were issued to the System during fiscal year 1997 by the General Services Commission concerning purchases made in accordance with Article 601b, Section 3.09, V.A.C.S.
6. The System submits a report on passenger vehicles to the Governor's Budget and Planning Office and Legislative Budget Board prior to acquisition. Other reports concerning institutional fees are submitted to the General Services Commission on a quarterly basis.
7. Vending Machine Revenues totaled \$2,539,013 for the System.
8. The System does not allow any personal use of state vehicles.
9. System records are furnished to the asset management division of the General Land Office only upon request.

23. Due From/Due to Other State Agencies

Agency Name	Agency #	Amount	Fund	Source
Due From Other State Agencies				
Texas Senate	101	\$ 7,646	Restricted	State
Texas Office of the Governor	300	1,251,761	Restricted	Federal
Texas Office of the Governor - Executive	301	5,849	Restricted	State
General Services Commissions	303	336,506	Restricted	State
Texas Comptroller of Public Accounts	304	150,000	E&G	State
Texas Comptroller of Public Accounts	304	30,090	Restricted	State
Texas General Land Office	305	45,440	Restricted	State
Texas State Auditor	308	11	Restricted	State
Texas Commission for National Community Service	309	6,692	Restricted	State
Texas Commission for the Blind	318	6,884	Restricted	State
Texas Workforce Commission	322	101,853	Restricted	State
Teacher Retirement System of Texas	323	9,077	Restricted	State
Texas Department of Human Services	324	271,450	Restricted	State
Texas Rehabilitation Commission	330	21,653	Restricted	State
Texas Department of Housing & Community Affairs	332	4,076	Restricted	State
Texas Council on Workforce & Economics	363	9,727	Restricted	State
Texas Department of Insurance	454	3,371	Restricted	State
Texas Railroad Commission	455	215,638	Restricted	State
Texas Department of Commerce	465	5,120	Restricted	State
Texas Department of Health	501	1,746,688	Restricted	Federal
Texas Low-Level Radioactive Waste Disposal Authority	526	207,786	Restricted	State
Texas Health & Human Services	529	40,069	Restricted	State
Department of Protective and Regulatory Services	530	194,482	Restricted	State
Texas Department of Agriculture	551	4,325	Restricted	State
Texas Water Development Board	580	21,502	Restricted	State
Texas Natural Resource Conservation Commission	582	381,602	Restricted	Federal
Texas Department of Transportation	601	1,938,049	Restricted	State
Texas Department of Transportation	601	71,705	E&G	State
Texas San Antonio State School	650	15,811	Restricted	State
Texas Department of MHMR	655	170,818	Restricted	State
San Antonio State Hospital	673	234,510	E&G	State
San Antonio State Hospital	673	4,320	Restricted	State
Texas San Antonio State Hospital	681	16,257	Restricted	State
Terrell State Hospital	682	2,471	Designated	State
Terrell State Hospital	682	23,726	Restricted	State
Texas Department of Criminal Justice	696	37,147	Restricted	State
Texas Education Agency	701	3,501,253	Restricted	State
Texas A&M University	711	70,642	Restricted	State
Texas Engineering Experiment Station	712	167,327	Restricted	State
Texas Transportation Institute	727	114,687	Restricted	State
Texas Woman's University	731	5,618	Restricted	State
Texas A&M University - Kingsville	732	7,386	Restricted	State
Lamar University - Beaumont	734	316,486	Restricted	State
University of North Texas	752	3,244	Restricted	State
Texas A&M University at Corpus Christi	760	14,630	Restricted	State
Texas Higher Education Coordinating Board	781	14,324	Restricted	State
Texas Higher Education Coordinating Board	781	98,403	E&G	Federal
University of Houston System	783	133	Restricted	State
Texas Parks & Wildlife Department	802	90,254	Restricted	State
Texas Historical Commission	808	18,785	Restricted	State
Texas Food & Fibers Commission	904	2,512	Restricted	State
Total Due From Other Agencies (Exhibit A)		\$ 12,019,796		

Due To Other State Agencies				
Texas State Auditor	308	25,674	Designated	State
University of North Texas Health Science Center - FW	763	<u>100,925</u>	Restricted	State
Total Due To Other Agencies (Exhibit A)		\$ <u>126,599</u>		

24. Federal Pass-throughs from Other State Agencies

On the Combined Statement of Changes in Fund Balances (Exhibit B) and the Combined Statement of Current Funds Revenues and Expenditures (Exhibit C), Federal Pass-throughs from Other State Agencies include:

Agency Name	Agency #	Exhibit B	Exhibit C
Fund - Restricted			
Texas Office of the Governor	300	\$ 10,425,805	9,565,845
Texas General Services Commission	303	20,631	(4,351)
Texas Department of Human Resources	324	2,765,001	2,741,719
Texas Rehabilitation Commission	330		1,279
Texas Department of Commerce	465	101,493	190,374
Texas Department of Health	501	6,113,713	5,833,731
Texas Commission on Alcohol & Drug Abuse	517	6,800,348	7,423,649
Texas Cancer Council	527	4,967	4,967
Texas Department of Human Services	529	276,019	262,112
Department of Protective and Regulatory Services	530	3,351	3,351
Texas National Resource Conservation Commission	582	475,157	381,160
Texas Department of Transportation	601	35,710	166,260
Texas Department of MHMR	655	168,567	138,364
Texas Education Agency	701	1,536,229	1,489,565
Texas Higher Education Coordinating Board	781	1,739,264	1,522,596
Texas Parks and Wildlife Department	802	20,000	18,343
Texas Committee for the Humanities	905	2,000	3,433
Total		\$ <u>30,488,255</u>	<u>29,742,397</u>
Fund - Educational and General			
Texas Office of the Governor	300		\$ 714,880
Texas General Services Commission	303		610
Texas Department of Commerce	465		60,399
Texas Department of Health	501		180,142
Texas Commission on Alcohol & Drug Abuse	517		4,435
Texas Department of Health	529		13,907
Texas Natural Resource Conservation Commission	582		78,138
Texas Department of Transportation	601		10,276
Texas Department of MHMR	655		30,203
Texas Education Agency	701		33,575
Texas Higher Education Coordinating Board	781		22,447
Total			\$ <u>1,149,012</u>

<u>Fund - Designated</u>			
Texas Office of the Governor	300	\$	145,080
Texas General Services Commission	303		12,684
Texas Department of Health	501		10,190
Texas Commission on Alcohol & Drug Abuse	517		111
Texas Natural Resource Conservation Commission	582		15,858
Texas Department of Transportation	601		181
Texas Education Agency	701		3,984
Total		\$	<u>188,088</u>

25. State Pass-Through Grants from Other State Agencies

On the Combined Statement of Changes in Fund Balances (Exhibit B) and the Combined Statement of Current Funds Revenues and Expenditures (Exhibit C), State Pass-throughs from Other State Agencies include:

<u>Agency</u>	<u>Agency #</u>	<u>Exhibit B</u>	<u>Exhibit C</u>
<u>Fund - Restricted</u>			
Texas Higher Education Coordinating Board	781	\$ <u>2,420,698</u>	<u>2,420,698</u>
<u>Fund - Educational and General</u>			
Office of State Federal Relations	333	\$	313,577
Texas Department of Transportation	601		54,050
Texas Higher Education Coordinating Board	781		931,256
Total		\$	<u>1,298,883</u>

APPENDIX D
FORM OF BOND COUNSEL OPINION

\$ _____
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS
SYSTEM REVENUE FINANCING SYSTEM BONDS
\$ _____ SERIES 1998C
\$ _____ SERIES 1998D

PURCHASE AGREEMENT

_____, 1998

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" or the "Issuer"), 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 "U.T. System 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 1998C (the "Series 1998C 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 1998D (the "Series 1998D Bonds" and together with the Series 1998C 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 and on August 14, 1997 (the "Master Resolution"), establishing The University of Texas System Revenue Financing System, and a seventh supplemental resolution, adopted by the Board on August 13, 1998 (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 1998C Bonds shall be \$ _____ (representing the par amount of the Series 1998C Bonds), plus a net original issue premium on the Bonds of \$ _____, plus interest accrued on the Series 1998C Bonds from the date of the Series 1998C Bonds to the Closing Date (as hereinafter defined). The Board shall pay to the Underwriters from available funds a fee of \$ _____ with respect to the Series 1998C Bonds.

The purchase price for the Series 1998D Bonds shall be \$ _____ (representing the par amount of the Series 1998D Bonds of \$ _____, [plus/less] a net original issue [premium/discount] on the Series 1998D Bonds of \$ _____ and less an underwriting discount of \$ _____), plus interest accrued on the Series 1998D Bonds from the date of the Series 1998D 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 _____, 1998, 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 U.T. System 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 Agreement 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 U.T. System 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, to the best knowledge of the Board, 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 U.T. System 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 U.T. System Representative, for the purpose of taking the actions provided for herein.

(q) The Board has not failed to comply in any material respect with any continuing disclosure agreement made by it in accordance with Rule 15c2-12.

5. **Closing.** (a) At 10:00 a.m., Texas time, on _____, 1998, 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 pay to the Underwriters the fee with respect to the Series 1998C Bonds as set forth in Paragraph 1 hereof, and the Representative will, subject to the terms and conditions hereof, accept such delivery and pay the respective purchase prices of the Series 1998C Bonds and Series 1998D 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, Suite 1250, 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 Smith Barney Inc. 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, the third supplemental resolution, the fourth supplemental resolution, the fifth supplemental resolution and the sixth 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 U.T. System 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 U.T. System Representative, to the effect that (A) to the best of her 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 her attention which causes her 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 IBCA, Inc. and a letter from Standard & Poor's Rating Services to the effect that the Bonds have been rated "AAA" and "AAA," 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 _____, 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 established by the Escrow Agreement on the Closing Date to pay when due all of the principal of and interest on the Refunded Obligations.

(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, Salomon Smith Barney, 3 First National Plaza, 52nd Floor, Chicago, Illinois, 60602, Attention: James E. Pass, Vice President.

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,

SMITH BARNEY INC.
as Representative

By: _____

Title: _____

Accepted and agreed to this
_____ day of _____, 1998.

THE BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

By: _____
Assistant Vice Chancellor for Finance

LIST OF UNDERWRITERS

TERMS OF THE BONDS

[Attach form of Official Statement completed as provided in
Paragraph 1 hereof]

FORM OF BOND COUNSEL'S SUPPLEMENTAL OPINION

_____, 1998

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

Smith Barney Inc.
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 1998C, and \$ _____ Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998D

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 _____, 1998 (the "Purchase Agreement") relating to the Bonds with Salomon Smith Barney 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 _____, 1998 (the "Escrow Agreement"), between the Board and Bankers Trust Company of New York (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 _____, 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,

PAYING AGENT/REGISTRAR AGREEMENT

THIS AGREEMENT entered into as of _____, 1998 (this "Agreement"), by and between Board of Regents of The University of Texas System (the "Issuer"), and Chase Bank of Texas, N.A. in Austin, Texas, a national banking association (the "Bank").

RECITALS

WHEREAS, the Issuer has duly authorized and provided for the issuance of its Board of Regents of The University of Texas System Revenue Financing System, Series 1998C and Series 1998D (the "Securities"), such Securities to be issued in fully registered form only as to the payment of principal and interest thereon; and

WHEREAS, the Securities are scheduled to be delivered to the initial purchasers thereof on or about _____; and

WHEREAS, the Issuer has selected the Bank to serve as Paying Agent/Registrar in connection with the payment of the principal of, premium, if any, and interest on said Securities and with respect to the registration, transfer and exchange thereof by the registered owners thereof; and

WHEREAS, the Bank has agreed to serve in such capacities for and on behalf of the Issuer and has full power and authority to perform and serve as Paying Agent/Registrar for the Securities;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE ONE APPOINTMENT OF BANK AS PAYING AGENT AND REGISTRAR

Section 1.01. Appointment.

The Issuer hereby appoints the Bank to serve as Paying Agent with respect to the Securities. As Paying Agent for the Securities, the Bank shall be responsible for paying on behalf of the Issuer the principal, premium (if any), and interest on the Securities as the same become due and payable to the registered owners thereof, all in accordance with this Agreement and the "Order" (hereinafter defined).

The Issuer hereby appoints the Bank as Registrar with respect to the Securities. As Registrar for the Securities, the Bank shall keep and maintain for and on behalf of the Issuer books and records as to the ownership of said Securities and with respect to the transfer and exchange thereof as provided herein and in the "Order."

The Bank hereby accepts its appointment, and agrees to serve as the Paying Agent and Registrar for the Securities.

Section 1.02. Compensation.

As compensation for the Bank's services as Paying Agent/Registrar, the Issuer hereby agrees to pay the Bank the fees and amounts set forth in Schedule A attached hereto for the first year of this Agreement and thereafter the fees and amounts set forth in the Bank's current fee schedule then in effect for services as Paying Agent/Registrar for municipalities, which shall be supplied to the Issuer on or before 90 days prior to the close of the Fiscal Year of the Issuer, and shall be effective upon the first day of the following Fiscal Year.

In addition, the Issuer agrees to reimburse the Bank upon its request for all reasonable expenses, disbursements and advances incurred or made by the Bank in accordance with any of the provisions hereof (including the reasonable compensation and the expenses and disbursements of its agents and counsel).

**ARTICLE TWO
DEFINITIONS**

Section 2.01. Definitions.

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

"Acceleration Date" on any Security means the date on and after which the principal or any or all installments of interest, or both, are due and payable on any Security which has become accelerated pursuant to the terms of the Security.

"Bank Office" means the corporate trust office of the Bank as indicated on the signature page hereof. The Bank will notify the Issuer in writing of any change in location of the Bank Office.

"Fiscal Year" means the fiscal year of the Issuer, ending August 31.

"Holder" and "Security Holder" each means the Person in whose name a Security is registered in the Security Register.

"Issuer Request" and "Issuer Order" means a written request or order signed in the name of the Issuer by the Board Representative, as defined in the Order, any one or more of said officials, delivered to the Bank.

"Legal Holiday" means a day on which the Bank is required or authorized to be closed.

"Order" means the order, resolution or ordinance of the governing body of the Issuer pursuant to which the Securities are issued, certified by the Secretary of the Board or any other officer of the Issuer and delivered to the Bank.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision of a government.

"Predecessor Securities" of any particular Security means every previous Security evidencing all or a portion of the same obligation as that evidenced by such particular Security (and, for the purposes of this definition, any mutilated, lost, destroyed, or stolen Security for which a replacement Security has been registered and delivered in lieu thereof pursuant to Section 4.06 hereof and the Order).

"Redemption Date" when used with respect to any Bond to be redeemed means the date fixed for such redemption pursuant to the terms of the Order.

"Responsible Officer" when used with respect to the Bank means the Chairman or Vice-Chairman of the Board of Directors, the Chairman or Vice-chairman of the Executive Committee of the Board of Directors, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Cashier, any Assistant Cashier, any Trust Officer or Assistant Trust Officer, or any other officer of the Bank customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Security Register" means a register maintained by the Bank on behalf of the Issuer providing for the registration and transfer of the Securities.

"Stated Maturity" means the date specified in the Order the principal of a Security is scheduled to be due and payable.

Section 2.02. Other Definitions.

The terms "Bank," "Issuer," and "Securities (Security)" have the meanings assigned to them in the recital paragraphs of this Agreement.

The term "Paying Agent/Registrar" refers to the Bank in the performance of the duties and functions of this Agreement.

ARTICLE THREE PAYING AGENT

Section 3.01. Duties of Paying Agent.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the principal of each Security at its Stated Maturity, Redemption Date, or Acceleration Date, to the Holder upon surrender of the Security to the Bank at the Bank Office.

As Paying Agent, the Bank shall, provided adequate collected funds have been provided to it for such purpose by or on behalf of the Issuer, pay on behalf of the Issuer the interest on each Security when due, by computing the amount of interest to be paid each Holder and preparing and sending checks by United States Mail, first class postage prepaid, on each payment date, to the Holders of the Securities (or their Predecessor Securities) on the respective Record Date, to the address appearing on the Security Register or by such other method, acceptable to the Bank, requested in writing by the Holder at the Holder's risk and expense.

Section 3.02. Payment Dates.

The Issuer hereby instructs the Bank to pay the principal of and interest on the Securities on the dates specified in the Order.

**ARTICLE FOUR
REGISTRAR**

Section 4.01. Security Register - Transfers and Exchanges.

The Bank agrees to keep and maintain for and on behalf of the Issuer at the Bank Office books and records (herein sometimes referred to as the "Security Register"), and, if the Bank Office is located outside the State of Texas, a copy of such books and records shall be kept in the State of Texas, for recording the names and addresses of the Holders of the Securities, the transfer, exchange and replacement of the Securities and the payment of the principal of and interest on the Securities to the Holders and containing such other information as may be reasonably required by the Issuer and subject to such reasonable regulations as the Issuer and the Bank may prescribe. All transfers, exchanges and replacement of Securities shall be noted in the Security Register.

Every Security surrendered for transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer, the signature on which has been guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers, in form satisfactory to the Bank, duly executed by the Holder thereof or his agent duly authorized in writing.

The Bank may request any supporting documentation it feels necessary to effect a re-registration, transfer or exchange of the Securities.

To the extent possible and under reasonable circumstances, the Bank agrees that, in relation to an exchange or transfer of Securities, the exchange or transfer by the Holders thereof will be completed and new Securities delivered to the Holder or the assignee of the Holder in not more than three (3) business days after the receipt of the Securities to be cancelled in an exchange or transfer and the written instrument of transfer or request for exchange duly executed by the Holder, or his duly authorized agent, in form and manner satisfactory to the Paying Agent/Registrar.

Section 4.02. Certificates.

The Issuer shall provide an adequate inventory of printed Securities to facilitate transfers or exchanges thereof. The Bank covenants that the inventory of printed Securities will be kept in safekeeping pending their use, and reasonable care will be exercised by the Bank in maintaining such Securities in safekeeping, which shall be not less than the care maintained by the Bank for debt securities of other political subdivisions or corporations for which it serves as registrar, or that is maintained for its own securities.

Section 4.03. Form of Security Register.

The Bank, as Registrar, will maintain the Security Register relating to the registration, payment, transfer and exchange of the Securities in accordance with the Bank's general practices and procedures in effect from time to time. The Bank shall not be obligated to maintain such Security Register in any form other than those which the Bank has currently available and currently utilizes at the time.

The Security Register may be maintained in written form or in any other form capable of being converted into written form within a reasonable time.

Section 4.04. List of Security Holders.

The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order and prior to the release or disclosure of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the court order or such release or disclosure of the contents of the Security Register.

Section 4.05. Return of Cancelled Certificates.

The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

Section 4.06. Mutilated, Destroyed, Lost or Stolen Securities.

The Issuer hereby instructs the Bank, subject to the applicable provisions of the Order, to deliver and issue Securities in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities as long as the same does not result in an overissuance.

In case any Security shall be mutilated, or destroyed, lost or stolen, the Bank, in its discretion, may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such destroyed lost or stolen Security, only after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, or destroyed, lost or stolen.

Section 4.07. Transaction Information to Issuer.

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities it has paid pursuant to Section 3.01, Securities it has delivered upon the transfer or exchange of any Securities pursuant to Section 4.01, and Securities it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities pursuant to Section 4.06.

**ARTICLE FIVE
THE BANK**

Section 5.01. Duties of Bank.

The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

Section 5.02. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and to have been

signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document supplied by Issuer.

(e) The Bank may consult with counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

Section 5.03. Recitals of Issuer.

The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

Section 5.04. May Hold Securities.

The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Moneys Held by Bank.

The Bank shall deposit any moneys received from the Issuer into a segregated account to be held by the Bank solely for the benefit of the owners of the Securities to be used solely for the payment of the Securities, with such moneys in the account that exceed the deposit insurance available to the Issuer by the Federal Deposit Insurance Corporation, to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas to secure and be pledged as collateral for such accounts until the principal and interest on such securities have been presented for payment and paid to the owner thereof. Payments made from such account shall be made by check drawn on such account unless the owner of such Securities shall, at its own expense and risk, request such other medium of payment.

Subject to the Unclaimed Property Law of the State of Texas, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any Security and remaining unclaimed for three years after the final maturity of the Security has become due and payable will be paid by the Bank to the Issuer if the Issuer so elects, and the Holder of such Security shall hereafter

look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease. If the Issuer does not elect, the Bank is directed to report and dispose of the funds in compliance with Title Six of the Texas Property Code, as amended.

Section 5.06. Indemnification.

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on its part, arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader.

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the State and County where either the Bank Office or the administrative offices of the Issuer is located, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to on the signature page of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction to determine the rights of any Person claiming any interest herein.

Section 5.08. Depository Trust Company Services.

It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements," effective August 1, 1987, which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

Attached hereto is a copy of the Letter of Representations between the Issuer and The Depository Trust Company, New York, New York, providing for the Bonds to be issued in a Book-Entry Only System. The Bank and the Issuer hereby confirm their obligations under such Letter of Representation.

**ARTICLE SIX
MISCELLANEOUS PROVISIONS**

Section 6.01. Amendment.

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

Section 6.02. Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03. Notices.

Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature page of this Agreement.

Section 6.04. Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns.

All covenants and agreements herein by the Issuer shall bind its successors and assigns, whether so expressed or not.

Section 6.06. Severability.

In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.08. Entire Agreement.

This Agreement and the Order constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Order, the Order shall govern.

Section 6.09. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination.

This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon sixty (60) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02 and of Article Five shall survive and remain in full force and effect following the termination of this Agreement.

Section 6.11. Governing Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

CHASE BANK OF TEXAS, N.A.

By: _____
Title: _____
700 Lavaca, 5th Floor
Austin, Texas 78701

ATTEST:

By: _____
Title: _____

(BANK SEAL)

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Title: Assistant Vice Chancellor for Finance
201 W. 7th Street
Austin, Texas 78701

ATTEST:

By: _____
Title: Executive Secretary

(SEAL)

SCHEDULE A

**Paying Agent/Registrar Fee Schedule
[To be supplied by the Bank]**

ESCROW AGREEMENT

THIS ESCROW AGREEMENT, dated as of _____, 1998 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between The Board of Regents of The University of Texas System (herein called the "Issuer") and Bankers Trust Company, as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The addresses of the Issuer and the Escrow Agent are shown on Exhibit "A" attached hereto and made a part hereof.

W I T N E S S E T H:

WHEREAS, the Issuer heretofore has issued and there presently remain outstanding the obligations described in Exhibit "B" attached hereto (the "Refunded Obligations"); and

WHEREAS, the Refunded Obligations are scheduled to come due on such dates, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit "C" attached hereto and made a part hereof; and

WHEREAS, when firm banking arrangements have been made for the payment of all principal and interest of the Refunded Obligations when due, then the Refunded Obligations shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, Vernon's Ann. Tex. Civ. St. Article 717k, as amended, authorizes the Issuer to issue refunding bonds and to deposit the proceeds from the sale thereof, and any other available funds or resources, directly with any place of payment (paying agent) for any of the Refunded Obligations, and such deposit, if made before such payment dates and in sufficient amounts, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; and

WHEREAS, Article 717k further authorizes the Issuer to enter into an escrow agreement with any such paying agent for any of the Refunded Obligations with respect to the safekeeping, investment, administration and disposition of any such deposit, upon such terms and conditions as the Issuer and such paying agent may agree, provided that such deposits may be invested only in 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, and which may be in book entry form, and which shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment of principal and interest on the Refunded Obligations when due; and

WHEREAS, the Escrow Agent is a paying agent (the "Paying Agent") for the Refunded Obligations and this Agreement constitutes an escrow agreement of the kind authorized and required by said Article 717k; and

WHEREAS, Article 717k makes it the duty of the Escrow Agent to comply with the terms of this Agreement and as the paying agent to pay the principal of, premium, if any, and interest on the Refunded Obligations when due, and in accordance with their terms, but solely from the funds, in the manner, and to the extent provided in this Agreement; and

WHEREAS, the issuance, sale, and delivery of The Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998C and The Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1998D (collectively, the "Refunding Obligations") have been duly authorized to be issued, sold, and delivered for the purpose, among others, of obtaining the funds required to provide for the payment of the principal of, premium, if any, and interest on the Refunded Obligations when due; and

WHEREAS, the Issuer desires that, concurrently with the delivery of the Refunding Obligations to the purchasers thereof, certain proceeds of the Refunding Obligations, together with certain other available funds of the Issuer, shall be applied to purchase certain direct obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

WHEREAS, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Obligations as it accrues and becomes payable and the principal of the Refunded Obligations as it becomes due and payable; and

WHEREAS, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the Issuer desires to establish the Escrow Fund at the principal corporate trust office of the Escrow Agent in New York, New York; and

WHEREAS, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest on the Refunded Obligations, the Issuer and the Escrow Agent mutually undertake, promise, and agree for themselves and their respective representatives and successors, as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01. Definitions. Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

"Escrow Fund" means the fund created by this Agreement to be administered by the Escrow Agent pursuant to the provisions of this Agreement.

"Escrowed Securities" means the noncallable and nonprepayable United States Treasury obligations and obligations the due and timely payment of which is unconditionally guaranteed by the United States of America described in Exhibit "D" attached to this Agreement, or cash or other direct obligations of the United States of America or obligations the due and timely payment of which is unconditionally guaranteed by the United States of America substituted therefor pursuant to Article IV of this Agreement.

Section 1.02. Other Definitions. The terms "Agreement", "Issuer", "Escrow Agent", "Refunded Obligations", "Refunding Obligations" and "Paying Agent", when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.03. Interpretations. The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Obligations in accordance with applicable law.

ARTICLE II

DEPOSIT OF FUNDS AND ESCROWED SECURITIES

Section 2.01. Deposits in the Escrow Fund. Concurrently with the sale and delivery of the Refunding Obligations the Issuer shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds and Escrowed Securities described herein, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the Issuer in writing.

ARTICLE III

CREATION AND OPERATION OF ESCROW FUND

Section 3.01. Escrow Fund. The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as "Board of Regents of The University of Texas System Revenue Financing System Commercial Paper Notes, Series A Second 1998 Escrow Fund" (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit "D" attached hereto. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Obligations, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.02 hereof. When the final transfers have been made for the payment of such principal of, premium, if any, and interest on the Refunded Obligations, any balance then remaining in the Escrow Fund shall be transferred to the Issuer upon its written request, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.02. Payment of Principal and Interest. The Escrow Agent is hereby irrevocably instructed to transfer to the respective paying agents for the Refunded Obligations from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Obligations at their respective maturity dates and interest thereon to such maturity dates in the amounts and at the times shown in Exhibit "C" attached hereto.

Section 3.03. Sufficiency of Escrow Fund. The Issuer represents that the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Obligations as such interest comes due and the principal of the Refunded Obligations as the Refunded Obligations mature, all as more fully set forth in Exhibit "E" attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by each place of payment (paying agent) for the Refunded Obligations to make the payments set forth in Section 3.02 hereof, the Issuer shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the Issuer's failure to make additional deposits thereto.

Section 3.04. Trust Fund. The Escrow Agent shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Obligations; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the

Refunded Obligations shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Obligations. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the Issuer, and the Escrow Agent shall have no right to title with respect thereto except as a constructive trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the Issuer or, except to the extent expressly herein provided, by the Paying Agent.

ARTICLE IV

LIMITATION ON INVESTMENTS

Section 4.01. Investments. Except as provided in Section 4.02 hereof, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer or otherwise dispose of the Escrowed Securities.

Section 4.02. Substitutions and Reinvestments. At the discretion of the Issuer, the Escrow Agent shall reinvest cash balances representing receipts from the Escrowed Securities, make substitutions of the Escrowed Securities or redeem the Escrowed Securities and reinvest the proceeds thereof or hold such proceeds as cash, together with other moneys or securities held in the Escrow Fund provided that the Issuer delivers to the Escrow Agent the following:

(1) an opinion by an independent certified public accountant that after such substitution or reinvestment the principal amount of the securities in the Escrow Fund (which shall be noncallable, nonprepayable direct obligations of the United States of America or obligations which are unconditionally guaranteed as to full and timely payment by the United States of America), together with the interest thereon and other available moneys, will be sufficient to pay, without further investment or reinvestment, as the same become due in accordance with Exhibit "C", the principal of, interest on and premium, if any, on the Refunded Obligations which have not previously been paid, and

(2) an unqualified opinion of nationally recognized municipal bond counsel to the effect that (a) such substitution or reinvestment will not cause the Refunded Obligations to be "arbitrage bonds" within the meaning of Section 103 of the Code or the regulations thereunder in effect on the date of such substitution or reinvestment, or otherwise make the interest on the Refunded Obligations subject to federal income taxation, and (b) such substitution or reinvestment complies with the Constitution and laws of the State of Texas and with all relevant documents relating to the issuance of the Refunded Obligations.

The Escrow Agent shall have no responsibility or liability for loss or otherwise with respect to investments made at the direction of the Issuer.

Notwithstanding anything to the contrary contained herein, the Issuer and the Escrow Agent shall not enter into a forward purchase agreement in connection with the Escrowed Securities unless Moody's Investors Service has confirmed in writing the rating on the Refunded Obligations.

Section 4.03. Arbitrage. The Issuer hereby covenants and agrees that it shall never request the Escrow Agent to exercise any power hereunder or permit any part of the money in the Escrow Fund or proceeds from the sale of Escrowed Securities to be used directly or indirectly to acquire any securities or obligations if the exercise of such power or the acquisition of such securities or obligations would cause any Refunding Obligations or Refunded Obligations to be an "arbitrage bond" within the meaning of Section 148 of the Code or Section 103(c) of the Internal Revenue Code of 1954.

ARTICLE V

APPLICATION OF CASH BALANCES

Section 5.01. In General. Except as provided in Sections 3.02 and 4.02 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund.

ARTICLE VI

RECORDS AND REPORTS

Section 6.01. Records. The Escrow Agent will keep books of record and account in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection at reasonable hours and under reasonable conditions by the Issuer and the owners of the Refunded Obligations.

Section 6.02. Reports. While this Agreement remains in effect, the Escrow Agent annually shall prepare and send to the Issuer a written report summarizing all transactions relating to the Escrow Fund during the preceding year, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Obligations or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

ARTICLE VII

CONCERNING THE PAYING AGENTS AND ESCROW AGENT

Section 7.01. Representations. The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 7.02. Limitation on Liability and Indemnification. The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Obligations shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, neither the Escrow Agent nor the Paying Agent shall have any liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the Issuer promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Refunding Obligations shall be taken as the statements of the Issuer and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent. The Escrow Agent is not a party to the proceedings authorizing the Refunding Obligations or the Refunded Obligations and is not responsible for nor bound by any of the provisions thereof (except as a place of payment and paying agent and/or a Paying Agent/Registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the Issuer thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own action, neglect or default, nor for any loss unless the same shall have been through its negligence or want of good faith. In addition, to the extent permitted by law, the Issuer agrees to indemnify the Escrow Agent and its employees, directors, officers and agents and hold each harmless against any and all losses, liabilities, litigation costs and expenses (including reasonable counsel fees and expenses), that

may arise out of any action or inaction of the Escrow Agent under this Agreement other than any action or inaction resulting from the Escrow Agent's negligence or want of good faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the Issuer with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own misconduct or its negligence and shall be entitled to advice of counsel concerning its duties hereunder. In determining the occurrence of any such event or contingency the Escrow Agent may request from the Issuer or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the Issuer at any time.

Section 7.03. Compensation. (a) Concurrently with the sale and delivery of the Refunding Obligations, the Issuer shall pay to the Escrow Agent, as a fee for performing the services hereunder and for all expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement and as Paying Agent for the Refunded Obligations, the sum of \$_____, the sufficiency of which is hereby acknowledged by the Escrow Agent for services hereunder and for all future paying agency services for the Refunded Obligations; and the Escrow Agent warrants that such sum is sufficient for such purpose. In the event that the Escrow Agent is requested to perform any extraordinary services hereunder, the Issuer hereby agrees to pay reasonable fees and expenses to the Escrow Agent for such extraordinary services and to reimburse the Escrow Agent for all expenses incurred by the Escrow Agent in performing such extraordinary services, including counsel fees and expenses, and the Escrow Agent hereby agrees to look only to the Issuer for the payment of such fees and reimbursement of such expenses. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses.

(b) Upon receipt of the aforesaid specific sum stated in subsections (a) of this Section 7.03 for Escrow Agent and paying agency fees, expenses, and services, the Escrow Agent shall acknowledge such receipt to the Issuer in writing.

Section 7.04. Successor Escrow Agents. If at any time the Escrow Agent or its legal successor or successors should become unable, through operation or law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the Issuer, by

appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the Issuer within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Obligations then outstanding by an instrument or instruments in writing filed with the Issuer, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Obligation may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Texas, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$25,000,000, subject to the supervision or examination by Federal or State authority and qualified to act as Escrow Agent under Tex. Rev. Civ. Stat. Ann. Art. 717k.

Any successor Escrow Agent shall execute, acknowledge and deliver to the Issuer and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the Issuer shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties. The Escrow Agent shall pay over to its successor Escrow Agent a proportional part of the Escrow Agent's fee hereunder.

ARTICLE VIII

MISCELLANEOUS

Section 8.01. Notice. Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the Issuer or the Escrow Agent at the address shown on Exhibit "A" attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten (10) days prior notice thereof. Moody's Investors Service is to receive prior written notice and draft legal documents of any contemplated amendment at the address specified in Section 8.04.

Section 8.02. Termination of Responsibilities. Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities

hereunder to the Issuer, the owners of the Refunded Obligations or to any other person or persons in connection with this Agreement.

Section 8.03. Binding Agreement. This Agreement shall be binding upon the Issuer and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Obligations, the Issuer, the Escrow Agent and their respective successors and legal representatives.

Section 8.04. Severability. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. Immediate written notice is to be sent by the Issuer to Moody's Investors Service after any incidence of severance. Such notice should be sent to Moody's Investors Service, Attention: Public Finance Rating Desk/Refunded Bonds, 99 Church Street, New York, New York, 10007.

Section 8.05. Texas Law Governs. This Agreement shall be deemed to be an agreement made under the laws of the State of Texas and for all purposes shall be governed by and construed in accordance with the laws of the State of Texas, except that the Escrow Agent's immunities and its standard of care in the performance of its responsibilities under this Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Section 8.06. Time of the Essence. Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 8.07. Effective date of Agreement. This Agreement shall be effective upon receipt by the Escrow Agent of the funds described in Exhibit "D" attached hereto and the Escrowed Securities, together with the specific sums stated in subsections (a) and (b) of Section 7.03 for Escrow Agent and paying agency fees, expenses, and services.

Section 8.08. Amendments. This Agreement is made for the benefit of The Board of Regents of The University of Texas System, the Escrow Agent and the holders or owners from time to time of the Refunded Obligations, and it shall not be repealed, revoked, altered or amended without the written consent of all such holders or owners and the written consent of the Escrow Agent; provided, however, that The Board of Regents of The University of Texas System and the Escrow Agent may, without the consent of, or notice to, such holders or owners and as shall not be inconsistent with the terms and provisions of this Agreement amend this Agreement to cure any ambiguity or formal defect or omission in this Agreement; but provided further that no amendment to or alteration of this Agreement shall conflict with the requirements for firm banking and financial arrangements in accordance with Article 717k, Vernon's Texas Civil Statutes, as amended. No such amendment shall adversely affect the rights of the holders of the Refunded Obligations. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto.

The Escrow Agent shall provide Moody's Investors Service with documents relating to any proposed amendment to this Agreement prior to execution of any such amendment. All notices to Moody's shall be sent at the address set forth in Section 8.04 of this Agreement.

[The remainder of this page is intentionally left blank.]

EXECUTED as of the date first written above.

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By: _____
Assistant Vice Chancellor for Finance

ATTEST:

Executive Secretary

(SEAL)

BANKERS TRUST COMPANY,
as Escrow Agent

By: _____
(Title) _____

ATTEST:

Trust Officer

(SEAL)

INDEX TO EXHIBITS

Exhibit "A"	Addresses of the Issuer and the Escrow Agent
Exhibit "B"	Description of the Refunded Obligations
Exhibit "C"	Schedule of Debt Service on Refunded Obligations
Exhibit "D"	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit "E"	Escrow Fund Cash Flow

EXHIBIT "A"

**ADDRESSES OF
THE ISSUER AND ESCROW AGENT**

ISSUER

The University of Texas System
201 W. 7th Street
Austin, Texas 78701

Attention: Pamela K. Clayton

ESCROW AGENT

Bankers Trust Company
4 Albany Street, 4th Floor
New York, New York 10006

Attention: Corporate Trust & Agency Services (Municipal Group)

EXHIBIT "B"

DESCRIPTION OF THE
REFUNDED OBLIGATIONS

\$ _____ principal amount of Board of Regents of The
University of Texas System Revenue Financing System Commercial
Paper Notes, Series A

EXHIBIT "C"

SCHEDULE OF DEBT SERVICE
ON REFUNDED OBLIGATIONS

EXHIBIT "D"

ESCROW DEPOSIT

I. CASH

\$ _____

II. U.S. TREASURY SECURITIES

EXHIBIT "E"

ESCROW FUND CASH FLOW

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

5. U. T. System: Recommended Approval of Non-Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1999, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein; and Approval of Permanent University Fund Bond Proceeds Reserve Allocation for Library, Equipment, Repair and Rehabilitation Projects.--

RECOMMENDATION

The Chancellor, with the concurrence of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Academic Affairs, and chief administrative officers of the U. T. System component institutions, recommends that the non-personnel aspects of the U. T. System Operating Budgets for the Fiscal Year ending August 31, 1999, including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans be approved.

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

It is requested that Permanent University Fund Bond Proceeds in the amount of \$35,000,000 be appropriated from reserves to fund Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 1999. In addition, it is recommended that the U. T. System component institutions be authorized to purchase approved equipment items and library materials and to contract for repair and rehabilitation projects following standard purchasing and contracting procedures within approved dollar limits. Substitute equipment purchases are to receive prior approval by the Chancellor and appropriate Executive Vice Chancellor or Vice Chancellor and, where required, the U. T. Board of Regents. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements. Final approval of specific repair and rehabilitation projects will be in accordance with Board established procedures for construction projects.

Fiscal Year 1999 funds from these reserves not expended or obligated by contract/purchase order within six months after the close of Fiscal Year 1999 are to be available for future System-wide reallocation unless specific authorization to continue obligating the funds is given by the Executive Vice Chancellor for Business Affairs on recommendation of the chief administrative officer and the appropriate Executive Vice Chancellor or Vice Chancellor.

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

BACKGROUND INFORMATION

The Chancellor will present a statement in support of the Operating Budget recommendations.

See Page Ex.S - 2 related to the personnel aspects of the Operating Budgets.

The appropriation of Permanent University Fund Bond Proceeds will be presented with the Fiscal Year 1999 Operating Budget. An allocation of \$35,000,000 is being requested for Library, Equipment, Repair and Rehabilitation Projects for Fiscal Year 1999. The allocation of these reserves to the U. T. System component institutions was developed from prioritized lists of projects submitted by the component institutions and reviewed by U. T. System Administration staff.

As required by the Available University Fund (AUF) Spending Policy, a forecast of revenues and expenses of the AUF for seven years, including the above allocation, has been prepared and is provided on Page BAAC - 212. The additional appropriation of Permanent University Fund Bond Proceeds for this allocation is within the policy as shown in the forecast.

**AVAILABLE UNIVERSITY FUND OPERATING STATEMENT
ACTUAL AND FORECAST DATA
(MILLIONS)**

UTIMCO PROJ. (4/98)	Actual			Forecast Data							
	FYE 95	FYE 96	FYE 97	FYE 98	FYE 99	FYE 00	FYE 01	FYE 02	FYE 03	FYE 04	FYE 05
Investment Income (a)(b)	249.5	253.2	282.8	278.6	251.3	252.3	254.0	256.2	256.2	259.9	265.1
Surface & Other Income	4.4	5.2	5.7	4.3	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Earnings - 50 Leagues Land	-0.1	-	-	-	-	-	-	-	-	-	-
Exp. of Revenue Bearing Property (c)	-9.9	-9.1	-28.0	-11.6	-11.6	-12.1	-12.6	-13.1	-13.6	-14.1	-14.7
Net Divisible Income	243.9	249.4	260.5	271.3	244.5	245.0	246.2	247.9	247.4	250.6	255.2
UT Share (2/3)	162.6	166.3	173.6	180.9	163.0	163.3	164.1	165.3	164.9	167.0	170.1
AUF Interest Income	4.5	4.5	5.6	5.0	4.8	4.2	4.1	4.0	3.9	3.9	4.1
Earnings - 50 Leagues Land	0.1	-	-	-	-	-	-	-	-	-	-
Income Available to UT	167.2	170.7	179.2	185.9	167.8	167.5	168.3	169.3	168.8	170.9	174.2
PUF Debt Service Transfers	-67.4	-57.6	-57.8	-61.6	-68.5	-69.0	-69.9	-71.5	-71.5	-71.5	-72.4
Prairie View A&M Transfers	-1.3	-	-	-	-	-	-	-	-	-	-
System Administration Transfers	-9.1	-10.0	-10.2	-11.2	-12.1	-12.4	-12.8	-13.2	-13.6	-14.0	-14.4
System Adm. Capital Budget	-0.6	-1.7	-1.1	-3.7	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
System Non-Divisible Expenditures	-4.1	-9.0	-6.6	-4.1	-4.1	-4.2	-4.3	-4.5	-4.6	-4.7	-4.9
UT Austin (B. R. Bond Reimbursement)	-3.8	-3.8	-3.8	-3.7	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	0.0
UT Austin Telecommunications	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
UT Austin Excellence Funds	-75.0	-74.8	-74.4	-76.4	-76.4	-76.9	-77.8	-78.8	-79.7	-81.0	-81.0
Other Transfers and Changes	1.3	-0.7	-0.6	-49.1	-25.2	-0.1	0.0	0.7	4.1	6.6	6.6
Total Transfers	-161.9	-158.3	-155.4	-210.5	-191.5	-167.7	-170.0	-172.5	-170.4	-169.8	-167.8
Net Surplus/(Deficit)	5.3	12.4	23.9	-24.7	-23.7	-0.2	-1.7	-3.2	-1.6	1.1	6.4
Ending AUF Fund Balance - Reserve	50.7	63.1	87.0	62.3	38.6	38.4	36.6	33.4	31.8	32.8	39.2
UT Austin Excellence Fund Share	45%	44%	42%	41%	46%	46%	46%	47%	47%	47%	46%
PUF Debt Service Coverage - Pledge	2.48:1	2.96:1	3.10:1	3.02:1	2.45:1	2.43:1	2.41:1	2.37:1	2.36:1	2.39:1	2.41:1
PUF Debt Service Coverage - Net of Transfers	1.06:1	1.23:1	1.42:1	1.40:1	1.02:1	1.00:1	0.98:1	0.95:1	0.92:1	0.92:1	1.00:1

(a) Investment Income for FY1997 includes income of \$18.3 mil. from securities lending. GASB Statement No. 28 requires financial reporting that separately discloses the income and the expenditures related to securities lending. The investment income projections for FY1998-2005 do not reflect any income or expenses related to securities lending.

(b) Includes \$27 mil. distribution of income as a result of change from cash to accrual basis of accounting. (SB701)

(c) Expenses of Revenue Bearing Property for FY1998 include \$17.1 mil. of expenditures related to securities lending.

6. U. T. System: Request to Approve an Aggregate Amount of Equipment Financing for Fiscal Year 1999 and Approve the Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve an aggregate amount of \$20,468,000 under the Revenue Financing System for equipment to be purchased in Fiscal Year 1999 by the following U. T. System component institutions:

U. T. Arlington	\$1,000,000
U. T. Austin	5,000,000
U. T. El Paso	1,010,000
U. T. Southwestern Medical Center - Dallas	4,000,000
U. T. Medical Branch - Galveston	5,000,000
U. T. Health Science Center - Houston	1,258,000
U. T. M.D. Anderson Cancer Center	3,000,000
U. T. System Administration	200,000

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page BAAC - 215, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's cost prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System, including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System, and to meet all financial obligations of the Board relating to the Financing System

- c. The component institutions and U. T. System Administration, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the aggregate amount of \$20,468,000 for the purchase of equipment
- 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 April 1994 meeting, the U. T. Board of Regents approved the use of Revenue Financing System debt for equipment purchases in accordance with the Guidelines Governing Administration of the Revenue Financing System. The guidelines specify that the equipment to be financed must have a useful life of at least three years. The debt is amortized twice a year with full amortization not to exceed ten years.

This agenda item requests approval of an aggregate amount of \$20,468,000 for equipment financing for Fiscal Year 1999. With the issuance of the equipment debt, the debt service coverage for the U. T. System is projected to range from 2.0 times to 2.6 times for the next six years (see Page BAAC - 216). Each fiscal year, the U. T. Board of Regents may be asked to approve an aggregate financing amount, and any amount approved for a fiscal year, but not used, may not be carried forward. For Fiscal Year 1998, the Board approved \$21,681,000 of equipment financing, of which \$6,489,000 had been issued as of July 10, 1998.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

**The University of Texas System
FY 1999 Equipment Financing
(\$ in millions)**

BAAC - 216

Component Institution:	Equip. Financing Requested	Annual Equip Debt Service	Debt Service Coverage (times)		Debt Service as a % of Budget		Source of Repayment
			FY 1998 - FY 2003 Minimum to Maximum		FY 1998 - FY 2003 Minimum to Maximum		
UT Arlington	\$1.000	\$0.245	1.9x	2.3x	4.42%	5.91%	Auxiliary Revenues
UT Austin	5.000	1.225	1.6x	2.4x	3.49%	4.75%	Lab Fees and Designated Funds
UT El Paso	1.010	0.247	1.7x	2.0x	3.88%	7.52%	Designated Funds
Total Academics	7.010	1.717					
UT Southwest Medical Center	4.000	0.980	0.9x	3.4x	3.56%	5.14%	Interest on Local Funds
UT Galveston Medical Branch	5.000	1.225	-4.4x	5.5x	0.61%	1.03%	Hospital Revenues
UT H.S.C. at Houston	1.258	0.308	2.1x	2.7x	2.12%	2.42%	Designated Funds
UT MD Anderson	3.000	0.735	2.2x	9.7x	0.93%	2.10%	Patient Income
Total Healths	13.258	3.248					
UT System Administration	0.200	0.049	6.3x	344.0x	0.29%	13.31%	AUF & Departmental Funds
Grand Total	<u>\$20.468</u>	<u>\$5.015</u>	2.0x	2.6x	2.22%	3.43%	

7. U. T. System: Recommended Change of Monthly Premiums for the Texas Universities Health Plan to be Effective September 1, 1998.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. Board of Regents approve the request to lower the monthly premium rates for the Texas Universities Health Plan that is offered to U. T. System employees and retirees in the Dallas, Texas, area to be effective September 1, 1998, as follows:

U. T. SYSTEM SELF-FUNDED MEDICAL PLAN MONTHLY PREMIUMS FOR FY 1998-99		
TEXAS UNIVERSITIES HEALTH PLAN (TUHP) DALLAS HMO WITH OUT-OF-NETWORK BENEFITS		
Coverage Level	Rate Approved at May 14, 1998 Meeting	Proposed Lower Rate for FY 1998-99
Subscriber Only	\$191.75	\$174.32
Subscriber and Spouse	\$383.41	\$362.25
Subscriber and Child(ren)	\$352.09	\$332.66
Subscriber and Family	\$535.54	\$505.98

BACKGROUND INFORMATION

Monthly premium rates for the Texas Universities Health Plan (TUHP) offered to U. T. System employees and retirees in the Dallas, Texas, area were approved by the U. T. Board of Regents at its May 1998 meeting. Towers Perrin, a nationally recognized benefit consulting firm, recommended lower premium rates be charged for TUHP as a result of their actuarial analysis that included TUHP's assumption of additional risk and premium rate guarantees. This information was not available prior to the last U. T. Board of Regents' meeting.

8. U. T. System: Recommendation to Revise and Rename the Environmental Review Policy for Acquisitions of Real Estate.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that the U. T. System Environmental Review Policy for Acquisitions of Real Estate be revised as set out in congressional style on Pages BAAC 220 - 225 and renamed the U. T. System Environmental Review Policy for Acquisitions of Real Property Assets.

BACKGROUND INFORMATION

The U. T. System Environmental Review Policy for Acquisitions of Real Estate, adopted by the U. T. Board of Regents in August 1991, required that all appropriate inquiries be made as to the condition of every parcel of real property prior to acquisition to minimize the potential for exposure to claims for damages under the applicable laws governing the environment and hazardous materials. In November 1995, the policy was rescinded by the U. T. Board of Regents and a replacement policy was adopted to incorporate the nationally recognized American Society for Testing and Materials (ASTM) standards for environmental review and evaluation of real property. The current policy covers only acquisitions of parcels of real

property and does not specifically address leases. The proposed revisions will make the policy more comprehensive by addressing leases of real property as well as the acquisition of title to real property by purchase, gift, exchange, or otherwise.

U. T. SYSTEM ENVIRONMENTAL REVIEW POLICY
FOR ACQUISITIONS OF REAL PROPERTY ASSETS [~~ESTATE~~]

Statement of Policy

It is the policy of The University of Texas System to minimize its potential for exposure to claims made [~~for damages~~] under the applicable laws governing the environment and hazardous substances by making all appropriate inquiry with regard to the environmental condition of real property [~~estate~~] assets, including leaseholds, prior to acquisition.

Scope of the Policy

To reduce the risk of liability, the U. T. System will complete an environmental site assessment (ESA) prior to acquisition of any [~~parcel of~~] real property asset, except as specifically provided in this policy. For purposes of this policy, the term "real property asset" means any interest in real property except a mineral interest severed from the surface estate, a leasehold in improvements only, or a leasehold less than five years in duration that does not contemplate any improvements to be constructed by U. T. System or other activities that would result in disturbance of the soil. The term specifically includes without limitation any acquisition in fee simple of real property, any leasehold on which U. T. System will construct improvements, and any leasehold where an underground storage tank, water wells, or monitoring wells exist. Federal and State statutes impose certain liabilities on owners of real property, including public institutions of higher education, when hazardous or other regulated substances have been deposited, stored, or released on the property. [~~The term "hazardous and other regulated substances"~~] Hazardous and other regulated substances [~~"~~] include not only [~~is not limited to~~] the most dangerous or toxic substances, but also [~~is broadly defined to include~~] a wide array of chemicals and compounds, many of which are components of household trash or are found in raw materials and wastes. [~~These~~] Liabilities related to hazardous and other regulated substances may include costs associated with removal of these [~~hazardous~~] substances from the property, including overhead and enforcement expenses. If environmental hazards are identified, the U. T. System should [~~may~~] then weigh the risks that may arise with respect to such hazards in determining whether the acquisition is beneficial and appropriate. If no risks are identified [~~by the ESA~~], the

U. T. System may, under certain circumstances, be able to assert a defense to liability if contamination that [is later discovered which] was unknown at the time of acquisition is later discovered.

The Environmental Review Process

1. At a minimum, prior to acquisition of any real estate asset, the benefited component, with respect to purchases of land or leaseholds to be used for campus purposes, or the Real Estate Office with respect to all other real property assets, will conduct an initial ESA using the American Society for Testing and Materials (ASTM) transaction screen process E1528. [must be conducted on every potential real estate asset prior to acquisition. The scope of any further assessment will be determined by] For purposes of the policy, "benefited component" means the component that will use and have control over land acquired by purchase, gift or bequest, or lease. The benefited component will determine the scope of further assessment based on the property's location and history, and findings of the transaction screen.
2. ~~[The review process for acquisition of campus land will be coordinated by t]~~The chief business officer of the benefited component [acquiring the land] or the chief business officer's [his/her] delegate, will coordinate the review process for purchase of real property assets to be used for campus purposes.
 - a. ~~No [real property should be acquired and added to the inventory of campus real estate of any]~~ component of the U. T. System will add property to the inventory of campus real property assets until [an ESA has been performed by] a qualified university employee or a qualified outside professional [consultant] retained by the component, performs an ESA in accordance with this policy [to conduct the assessment].
 - b. ~~[All costs of the ESA shall be paid by t]~~The benefited component will pay all costs of the ESA that are not paid by a donor or an external entity whether the acquisition is by purchase, gift, bequest, or other means [acquiring the real property as part of the acquisition process].

~~[3. The review process for acquisition of trust real estate will be the responsibility of the Real Estate Office.]~~

~~c. [a. The Real Estate Office shall be notified] Any office or component of the U. T. System will notify the Real Estate Office immediately upon identification of a real property [estate] asset which may be donated or bequeathed to the U. T. System [any office] or any component institution [of the U. T. System].~~

~~d. [b.] No component will make a commitment to accept a donation or bequest of a real property asset [should be made] until [an ESA has been performed under the direction of] the appropriate office [Real Estate Office] has complied with this policy with respect to such asset.~~

~~[e. All costs of the ESA which are not paid by the donor or external entity will be paid by the office or component which will benefit from the asset to be acquired.]~~

~~3. [4.] All ESAs will comply [should be performed in compliance] with the appropriate standards established by ASTM, unless otherwise specifically provided for in this policy.~~

~~4. [5.] The Real Estate Office may require, when appropriate, an [F] investigation of other environmental issues or conditions beyond the scope of the ASTM guidelines, such as lead, biological, or radiation contamination [may be required and will be determined and performed on a property by property basis].~~

~~5. [6.] If the initial transaction screen indicates areas of concern, the "Responsible Officer" (Real Estate Office or Chief Business Officer of the benefited component with respect to real property assets to be used for campus purposes, as appropriate) [property] may (i) [be] reject[ed] the real property asset, (ii) [be] accept[ed] the real property asset with the identified risks, or (iii) require [be subject to] further investigation in the form of a Phase I, II, or III ESA [at the request of the benefitted component (campus land) or the direction of the Real Estate Office (trust land)].~~

6.~~7.~~ If the Responsible Officer requests a Phase I ESA, a qualified outside professional will perform the ESA ~~[is requested, it should generally be performed by an outside expert,]~~ unless the component or the U. T. System has a qualified employee to complete ~~[do]~~ the review.

- a. All contracts for Phase I ESAs must ~~[shall]~~ be in a form acceptable to the Office of General Counsel.
- b. The Office of General Counsel and the Responsible Officer ~~[Real Estate Office (trust land) or the component business office (campus land)]~~ shall review the ESA report.
- c. If the Phase I ESA indicates areas of concern, the Responsible Officer ~~[property (i)]~~ may ~~[be]~~ (i) reject~~[ed]~~ the property asset, (ii) [may be] accept~~[ed by]~~ the real property asset with the identified risks ~~[benefitted component]~~, or (iii) require ~~[may be subject to]~~ additional investigation in the form of a Phase II or III ESA ~~[at the request of the benefitted component]~~.

7.~~8.~~ ~~If a Phase II ESA is requested, it must be conducted by an~~ A qualified outside professional [consultant] must conduct any Phase II ESA, unless the component receives express written permission from the Executive Director, Real Estate Office to conduct all or part of the Phase II in-house based on the institution's expertise. The Phase II ESA [and] should include an extensive review of prior uses of the land and records pertaining to those uses, an examination and sampling of the property, and testing of all samples collected.

- a. All contracts for Phase II ESAs must ~~[shall]~~ be in the form acceptable to ~~[prepared or reviewed by]~~ the Office of General Counsel.
- b. The Office of General Counsel and the Responsible Officer will ~~[either the Real Estate Office (trust land) or the appropriate business office (campus land) shall]~~ review the Phase II ESA report ~~[, unless the institution receives express written permission from the Executive Director of the Real Estate Office to conduct all or part of the Phase II in-house based on their expertise]~~. If the Phase II ESA indicates areas of concern, the Responsible Officer may (i) reject the real property asset ~~[may be rejected or]~~, (ii) accept the real property asset

with identified risks, or (iii) require additional investigation [may be undertaken by] in the form of a supplemental Phase II or a Phase III ESA [at the request of the benefitted component].

~~8.~~[9. If a Phase III ESA is requested, it must be conducted by an] A qualified outside professional [expert and] must conduct any Phase III ESA. The ESA should include extensive physical sampling of the site, testing of all samples, estimates of the extent of contamination, and estimates of the total cost to clean up the site.

a. All contracts for Phase III ESAs must ~~[shall]~~ be in a form acceptable to ~~[prepared or reviewed by]~~ the Office of General Counsel.

b. The Office of General Counsel and the Responsible Officer ~~[either the Real Estate Office (trust land) or the appropriate component business office (campus land) shall]~~ will review the Phase III ESA report. If the Phase III ESA identifies unacceptable contamination or cleanup estimates, the real property asset ~~[site]~~ will be rejected and will not be acquired.

~~9.~~[10. Complete ASTM guidelines for the ESA transaction screen process, as revised from time to time, will be maintained by t]The Real Estate Office will maintain complete ASTM guidelines for the ESA transaction screen process, as revised from time to time. The Real Estate Office will [and] distribute[d] the guidelines at cost to any [all] component business and development offices upon request. [Copies of the ESA Phase I ASTM guidelines will be ordered at a component's request.]

~~10.~~[11.] When the U. T. System or a benefitted component conducts an ESA either in-house or using a [an] qualified outside professional [consultant] and elects, based on the results of the ESA, not to acquire the real property asset [parcel] under review, it is the System's policy to provide a copy of the ESA, with an appropriate disclaimer to the seller/current land owner or landlord, if requested.

Recommended Environmental Review by Property Type

The level of screening will vary according to [~~property~~] type of real property asset, history and location. [~~In general, the initial transaction screen ESA should be conducted as described in this section.~~]

1. Residential:
 - a. Have a qualified in-house individual or outside professional conduct an inspection. [~~Conduct a site visit using the ASTM transaction screen.~~]
 - b. Conduct a site visit and a review of aerial photos for the past 50 years if such photos are [~~reasonably~~] readily available from libraries or archives. If there is concern about past land uses (i.e., the property was vacant and in a remote or formerly industrial/commercial area, the site visit indicates distressed vegetation, or there is other evidence of contamination), then a 50-year title search may be warranted.
2. Vacant/Unoccupied Lands: Step[~~s~~ 1.a and] 1.b above. The site visit should include (a) asking neighbors about prior uses such as dumping, and (b) inspecting along on-site roadways or fence lines where historical dumping would be more likely to have occurred. Aerial photos may be particularly useful in evaluating historical dumping on vacant lands.
3. Commercial Sites: Steps 1.a and 1.b above. A 50-year title search will be useful in evaluating former uses of commercial property. Every attempt should be made to obtain from the current or past owners, operators and/or [~~the current or past~~] tenants the nature of business conducted at the site including a review of copies of any permits, licenses, notices of violation or consent agreements issued to owners, [~~or~~] operators or [~~+~~]tenants[~~+~~] of the site.
4. Industrial Sites: Engage a qualified outside professional [~~expert~~] to conduct a Phase I ESA in accordance with ASTM Phase I Standard E1527, including a review of copies of any permits, licenses, notices of violation or consent agreements issued to current or past owners, [~~or~~] operators or [~~+~~]tenants[~~+~~] of the site.

9. U. T. Austin - C. B. Smith, Sr. Centennial Chairs in United States - Mexico Relations: Request for Approval to Sell Approximately 6.4 Acres of Land Located on Teri Road, Austin, Travis County, Texas, and Authorization to Execute All Documents Related Thereto.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Faulkner that authorization be given for the U. T. System Real Estate Office, on behalf of U. T. Austin, to sell approximately 6.4 acres of land located on Teri Road, Austin, Travis County, Texas, to Home Depot U. S. A., Inc., a Delaware corporation, for approximately \$906,000, or \$3.25 per square foot, as determined by a survey. The current appraised value of the property is \$3.00 per square foot. The proceeds from the sale of the property will be invested in the Long Term Fund for the benefit of the C. B. Smith, Sr. Centennial Chairs in United States - Mexico Relations at U. T. Austin.

It is further recommended that the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate be authorized to execute all documents, instruments, and other agreements and take all such further actions deemed necessary, advisable, or proper to carry out the purpose and intent of the foregoing recommendation.

BACKGROUND INFORMATION

The subject property is a portion of a 19.9357 acre tract of land that was donated to U. T. Austin by Mr. C. B. Smith, Sr., and Ms. Johanna L. Smith and accepted by the U. T. Board of Regents at its June 1983 meeting. At that meeting, the U. T. Board of Regents also authorized the establishment of one or more C. B. Smith, Sr. Centennial Chair(s) in United States - Mexico Relations in the College of Liberal Arts at U. T. Austin.

10. U. T. Health Science Center - Houston: Request for Determination of Necessity and Authorization to Acquire Approximately 5.1 Acres of Land Located on the Northwest Corner of El Paseo and Cambridge Streets in Houston, Harris County, Texas; Authorization to Take All Necessary Actions Needed to Acquire Through Purchase or Eminent Domain; and Authorization to Execute All Documents Related Thereto.--

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. Determine that it is necessary for the U. T. Health Science Center - Houston to acquire, through condemnation proceedings if necessary, approximately 5.1 acres of land located at the northwest corner of El Paseo and Cambridge Streets in Houston, Harris County, Texas
- b. Authorize the U. T. Health Science Center - Houston to acquire the subject property, through condemnation proceedings if necessary, for institutional purposes including, without limitation, the construction of a student housing complex
- c. Authorize the Executive Vice Chancellor for Business Affairs or the Executive Director of Real Estate to take all steps necessary to acquire the property; to execute all documents, instruments, and other agreements; to initiate a condemnation action, if necessary, through the Office of General Counsel and the Office of the Attorney General; and to take all such actions deemed necessary or desirable to carry out the purpose and intent of the foregoing recommendations.

BACKGROUND INFORMATION

The subject property is a 5.1157 acre tract of vacant land located immediately adjacent to an existing student housing complex which is owned and operated by the U. T. Health Science Center - Houston. In August 1995, the U. T. Board of Regents authorized the negotiation of a ground lease for a portion of another tract of land acquired by the U. T. Board of Regents in 1970, with consideration for the lease to include acquisition of the subject property by the ground tenant and subsequent transfer of title to the U. T. Health Science Center - Houston. The ground lease negotiations were unsuccessful in producing an agreement.

On May 9, 1996, the U. T. Board of Regents authorized negotiations to purchase the subject property at its fair market value and to construct a 96-unit student housing complex on the subject property. The Texas Higher Education Coordinating Board subsequently approved the May 1996 actions at its July 1996 meeting. Since that time, attempts to contact the property owner and to purchase the property have been unsuccessful. The U. T. Health Science Center - Houston is now requesting approval from the U. T. Board of Regents to declare a public need to acquire the subject property and to reauthorize its acquisition at fair market value by good faith negotiations or by eminent domain proceedings, if necessary. Resubmission to the Texas Higher Education Coordinating Board will also be required due to the time lapse and the possible increase in appraised value.

INFORMATIONAL REPORTS

1. U. T. System: Discussion of the June 1998 Monthly Financial Report.--

REPORT

Mr. R. D. Burck, Executive Vice Chancellor for Business Affairs, will discuss the June 1998 Monthly Financial Report for the U. T. System.

2. U. T. System: Report on Status of Action Plan to Ensure Institutional Compliance.--

REPORT

Executive Vice Chancellor Burck will provide a status report on the implementation of the U. T. System Action Plan to Ensure Institutional Compliance.

Academic Affairs Committee

ACADEMIC AFFAIRS COMMITTEE
Committee Chairman Lebermann

Date: August 13, 1998

Time: Following the Meeting of the Business Affairs and
Audit Committee

Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith
Hall

	<u>Page</u> <u>AAC</u>
1. U. T. Board of Regents: Proposed Amendment to the Regents' <u>Rules and Regulations</u> , Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.83(h) (Academic Titles)	3
2. U. T. Board of Regents: Proposed Appointment of Regental Representatives to U. T. Austin Intercollegiate Athletics Council for Men and Intercollegiate Athletics Council for Women Effective September 1, 1998	4
3. U. T. System: Request for Authorization for Component Institutions to Charge Nonresident Tuition Rates to Undergraduate Students with Excessive Undergraduate Semester Credit Hours Effective with the Fall Semester 1999 (Catalog Change)	4
4. U. T. System: Request for Delegation of Authority to Chief Administrative Officers to Waive Tuition and Fees Authorized by Statute	5
5. U. T. Austin: Recommendation for Approval to Establish the Lyndon Baines Johnson School of Public Affairs Advisory Council	6
6. U. T. Austin: Recommendation for Approval for an Individual to Continue to Hold Equity in Cyternex, Inc., Austin, Texas	7

7. U. T. Austin: Recommendation for Approval for the U. T. Board of Regents to Acquire Equity in Focal, Inc. (Formerly Pegas Pharmaceuticals, Inc.), Lexington, Massachusetts 9
8. U. T. Austin: Recommendation for Approval for an Individual to Continue to Hold Equity in IGEN International, Inc., Gaithersburg, Maryland 11
9. U. T. Dallas: Recommendation for Approval for Individual to Continue to Hold Equity in and Serve as a Member of the Board of Directors of Magnetic Resonance Solutions, Inc., Dallas, Texas 14
10. U. T. Pan American: Recommendation for Approval to Establish the Rio Grande Valley Historical Collection Advisory Council 16
11. U. T. San Antonio: Request for Authorization to Establish a Doctor of Philosophy Degree in Culture, Literacy, and Language and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change) 17

INFORMATIONAL REPORT

- U. T. System: Report on the Status of Reading-Related Preparation Activities in Teacher Certification Programs 20

1. U. T. Board of Regents: Proposed Amendment to the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.83(h) (Academic Titles).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor for Academic Affairs that the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.83(h), regarding academic titles, be amended as set forth below in congressional style:

1.83

. . . .

- (h) Specialist. This title may be used for professional individuals who will serve as practitioners in specific areas of instruction, training or supervision. Upon approval of the chief administrative officer, [~~the Executive Vice Chancellor for Health Affairs or the Vice Chancellor for Academic Affairs, as appropriate,~~] the title may carry appropriate descriptive prefixes so as to indicate the specific areas of proficiency, e.g. Practice Teaching Specialist, Physical Activity Specialist, Social Work Field Training Specialist.

. . . .

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

The proposed amendment to the Regents' Rules and Regulations, Part One, Chapter III, Section 1, Subsection 1.8, Subdivision 1.83(h), regarding academic titles, delegates authority

to the chief administrative officers of the component institutions to make appointments to the nontenured, nontenure-track title of "Specialist" and deletes the need for further review and approval at the U. T. System level.

2. U. T. Board of Regents: Proposed Appointment of Regental Representatives to U. T. Austin Intercollegiate Athletics Council for Men and Intercollegiate Athletics Council for Women Effective September 1, 1998.--

A recommendation related to the proposed appointment of Regental representatives to the U. T. Austin Intercollegiate Athletics Council for Men and Intercollegiate Athletics Council for Women for a four-year term beginning September 1, 1998, will be submitted to the U. T. Board of Regents at the August 1998 meeting.

3. U. T. System: Request for Authorization for Component Institutions to Charge Nonresident Tuition Rates to Undergraduate Students with Excessive Undergraduate Semester Credit Hours Effective with the Fall Semester 1999 (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor for Academic Affairs that the U. T. Board of Regents delegate to the chief administrative officers of the U. T. System component institutions authority to charge a tuition rate that is higher than the regular tuition rate but that does not exceed the statutory nonresident tuition rate to resident undergraduate students who accumulate excessive hours as defined by the Texas Education Code, Section 54.068. Such tuition rates would be effective no earlier than the Fall Semester 1999.

Upon approval by the U. T. Board of Regents and subsequent approval by the component chief administrative officer, the next appropriate catalog published at the respective institution will be amended to reflect this action.

ACADEMIC AFFAIRS COMMITTEE

SUPPLEMENTAL MATERIAL

AUGUST 12-13, 1998

2. U. T. Board of Regents: Proposed Appointment of Regental Representatives to U. T. Austin Intercollegiate Athletics Council for Men and Intercollegiate Athletics Council for Women Effective September 1, 1998.--

RECOMMENDATION

Chairman Evans, with the concurrence of Chancellor Cunningham and President Faulkner, recommends the appointment of the following as Regental representatives to the U. T. Austin Intercollegiate Athletics Council for Men and the Intercollegiate Athletics Council for Women each for a four-year term beginning September 1, 1998:

- a. Mr. Howard Shapiro of Plano, Texas, to succeed Mr. Ben Barnes on the Intercollegiate Athletics Council for Men
- b. Mr. Michael W. Perrin of Houston, Texas, to succeed Ms. Karen R. Johnson on the Intercollegiate Athletics Council for Women.

BACKGROUND INFORMATION

The U. T. Austin Intercollegiate Athletics Council for Men is a nine member advisory group composed of a student, an ex-student, two Regental appointees and five members of the University General Faculty. The Regental appointments are for four (4) year staggered terms. Mr. Robert K. Moses, Jr., of Houston is the continuing Regental representative.

The Intercollegiate Athletics Council for Women is composed of nine voting members and one nonvoting member as follows: two students (one nonvoting), an ex-student, two Regental appointees and five members of the University General Faculty.

The Regental appointments are for four (4) year staggered terms. George Willeford III, M.D., of Austin is the continuing Regental representative.

Mr. Shapiro, an attorney in private practice in Plano and a board member of the Plano Sports Authority, is a 1970 graduate of U. T. Austin.

Mr. Perrin, who currently serves as Partner-in-Charge of the Houston law office of King & Spalding, received his undergraduate and law degrees from U. T. Austin where he was a lettered football player and a member of the 1968 Southwest Conference Championship team.

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

Section 54.068 of the Texas Education Code, which was passed by the 75th Texas Legislature in 1997, authorizes institutions of higher education to charge a resident student a tuition rate that is higher than the regular resident tuition, but not to exceed the nonresident tuition rate, if the student has previously attempted 170 or more semester credit hours without earning a baccalaureate degree. Section 61.0595, also enacted in 1997, directs the Texas Higher Education Coordinating Board to withhold formula funding for students who have previously attempted 170 or more semester credit hours for courses taken at any institution of higher education while classified as a resident of Texas for tuition purposes. The reduced formula funding becomes effective with the Fall Semester 1999.

The proposed authorization to allow the charge of nonresident tuition rates for excess undergraduate credit hours will permit the U. T. System institutions to recover a portion of the lost formula funding.

4. U. T. System: Request for Delegation of Authority to Chief Administrative Officers to Waive Tuition and Fees Authorized by Statute.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and the Vice Chancellor for Academic Affairs that the U. T. Board of Regents delegate to the chief administrative officers of the U. T. System component institutions the authority, effective immediately, to exempt qualified students from the payment of tuition and/or required fees under the various provisions of the Texas Education Code, Subchapter D, "Exemptions from Tuition," which establish permissive authority for a governing board to grant

an exemption. The institutional policies related to exemptions shall be published in the appropriate institutional catalogs and approved by the U. T. System Administration in keeping with the normal procedures for catalog approval.

This item requires the concurrence of the Health Affairs Committee.

BACKGROUND INFORMATION

The 75th Texas Legislature added a provision to the Texas Education Code, Section 54.2041, that permits, but does not require, the governing board of an institution of higher education to exempt a Texas resident peace officer, permanently disabled in the line of duty, from the payment of tuition and required fees. Other sections in Subchapter D of the Texas Education Code allow specified exemptions to be granted. Under previously established procedures, the approval by the U. T. Board of Regents for an institution to grant such an exemption was handled through a formal agenda item. The proposal is in keeping with the prior decision of the U. T. Board of Regents to delegate approval authority as appropriate and prudent. The proposed delegation has been reviewed by the chief administrative officers.

5. U. T. Austin: Recommendation for Approval to Establish the Lyndon Baines Johnson School of Public Affairs Advisory Council.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs, the Vice Chancellor for Development and External Relations, and President Faulkner that approval be given to establish the Lyndon Baines Johnson School of Public Affairs Advisory Council at U. T. Austin, pursuant to the Regents' Rules and Regulations, Part One, Chapter VII, Section 3, regarding the advisory councils of a component institution.

BACKGROUND INFORMATION

The mission of the Lyndon Baines Johnson School of Public Affairs Advisory Council at U. T. Austin will be to foster continuous improvements in the quality of public affairs education, research, and outreach at the Lyndon Baines Johnson (LBJ) School of Public Affairs. Its objectives will include assisting the LBJ School in identifying sources of private funding for all components of the School.

Membership will be comprised of honorary life, ex officio, and no more than 30 regular members, at least one of whom must also be a member of the Board of Trustees of the Lyndon Baines Johnson Foundation. Regular members will be appointed by the President, based on nominations by the Dean of the LBJ School in consultation with the Advisory Council, with appointments subject to final approval by the Chancellor. Regular members will serve staggered terms and may not serve more than two consecutive three-year terms.

6. U. T. Austin: Recommendation for Approval for an Individual to Continue to Hold Equity in Cyternex, Inc., Austin, Texas.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Faulkner that the U. T. Board of Regents approve the continued holding of equity in Cyternex, Inc., Austin, Texas, by Dr. Laurence H. Hurley, Professor and holder of the George H. Hitchings Regents Chair in Drug Design in the College of Pharmacy at U. T. Austin.

BACKGROUND INFORMATION

Dr. Laurence H. Hurley, a faculty member in the College of Pharmacy's Dynamics Drug Institute at U. T. Austin, has created the following inventions: (1) "Solid Phase Parallel Synthesis of Quinobenzoxazine Analogs for Use as Antineoplastic Agents," (2) "Controlled Release Compositions for Targeting Delivery of

Ligands Directly to the Cell Nucleus," and (3) "Controlled Release Compositions for Targeting Delivery of Antisense Directly to the Cell Nucleus" (collectively the "Technology").

A proposed Letter of Understanding outlines the conditions under which Cyternex, Inc. ("Cyternex") and the U. T. Board of Regents, for and on behalf of U. T. Austin, will negotiate a license agreement covering the Technology. The provisions of the Letter of Understanding have been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. Under the Letter of Understanding, Cyternex will provide U. T. Austin with a plan for securing third party funding for further development of the Technology.

If Cyternex secures funding during the allotted time period, the parties will begin to negotiate an agreement for an exclusive, worldwide license for Cyternex to manufacture, have manufactured, use, sell, import or export, offer for sale and sublicense the Technology. The license will also include at least the following:

- a. Reimbursement of all patent prosecution fees to U. T. Austin, including \$8,400 to cover expenses for filing three provisional patent applications on the Technology
- b. Payment and other consideration for the license which may include, but is not limited to, a paid-up royalty, running royalty rates, and diligence requirements in commercializing the Technology, and
- c. Other terms that are reasonable and customary to a license agreement, such as indemnification language protecting the U. T. Board of Regents, and are in conformity with the Constitution and laws of the State of Texas and U. T. Board of Regents' Rules and Regulations and policies.

Dr. Hurley currently holds equity in Cyternex and he will become a Scientific Advisor when Cyternex secures third party funding. Dr. Hurley will not hold an office in nor serve as a member of the Board of Directors for Cyternex. U. T. Austin has determined that a license to Cyternex is appropriate because the activities of Cyternex involve applied research (specific drug development) whereas Dr. Hurley's research at U. T. Austin involves basic research (new drug discovery). In a letter dated March 3, 1998, to Dr. James T. Doluisio, Dean

of the College of Pharmacy, Dr. Hurley affirms that he has reviewed the U. T. Austin policy and procedures for promoting objectivity in research and he is willing to cooperate with U. T. Austin in implementing any management steps necessary to ensure that no actual conflicts of interest occur.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsections 6.2 and 7.1 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for Dr. Hurley to continue to hold equity in Cyternex, Inc.

7. U. T. Austin: Recommendation for Approval for the U. T. Board of Regents to Acquire Equity in Focal, Inc. (Formerly Pegas Pharmaceuticals, Inc.), Lexington, Massachusetts.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Faulkner that the U. T. Board of Regents, on behalf of U. T. Austin, approve the acquisition of equity in Focal, Inc. (formerly Pegas Pharmaceuticals, Inc.), Lexington, Massachusetts.

BACKGROUND INFORMATION

Dr. Jeffery A. Hubbell, formerly a Professor in the Department of Chemical Engineering at U. T. Austin, has created inventions relating to photopolymerizable biodegradable hydrogels.

Dr. Hubbell's inventions were licensed to Pegas Pharmaceuticals, Inc., a for-profit Delaware corporation with principal offices in Menlo Park, California ("Pegas"), under a Patent and Technology License Agreement effective June 11, 1992. In this agreement, the U. T. Board of Regents granted Pegas a royalty-bearing, exclusive worldwide license to manufacture, to have manufactured, and to use and sell photopolymerizable, biodegradable hydrogel compositions for treatment of certain human medical conditions; to practice any method, process or

procedure within the patent rights or the technology rights; and to otherwise exploit the licensed subject matter throughout the world for use within the field of treating post-surgical adhesions and other fibrosis or scarring conditions. The 1992 Agreement also included terms that are reasonable and customary to a license agreement, such as standard language indemnifying the U. T. Board of Regents.

On July 15, 1992, Pegas became Focal, Inc. ("Focal") and moved its principal offices to Lexington, Massachusetts.

The 1992 Agreement was first amended on July 23, 1993, to provide Focal the sole right to file and prosecute domestic and/or foreign patent applications and maintain any patent that may issue therefrom.

Additional proposed amendments to the 1992 Agreement ("Amendment #2") have been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. Under proposed Amendment #2, Focal is granted an expanded license field to include use of the licensed subject matter for coated medical devices in exchange for the following consideration:

- a. Within 10 days after the effective date of Amendment #2, Focal will pay the U. T. Board of Regents a \$30,000 license fee
- b. Within 10 days following the first anniversary of the effective date of Amendment #2, Focal will pay the U. T. Board of Regents a license fee consisting of both:
 1. \$30,000 cash, and
 2. Shares of Focal Common Stock equal in value to \$20,000 based on the average closing price of Focal Common Stock as reported by NASDAQ
- c. Focal will pay the U. T. Board of Regents \$30,000 for each nonexclusive sublicense it executes
- d. Focal will pay the U. T. Board of Regents \$50,000 for each exclusive sublicense it executes

- e. Focal agrees to use reasonable commercial efforts to fund or secure commitments to fund development programs in the coated medical device field for amounts totaling not less than \$400,000 prior to the second anniversary of the effective date of Amendment #2. If Focal fails to provide or secure such funding, Focal's ongoing rights to the coated medical device field will be contingent upon the negotiation of a new license amendment.

Review by U. T. Austin supports the recommendation that the acquisition of equity in Focal by the U. T. Board of Regents, pursuant to proposed Amendment #2 to the 1992 Agreement, does not raise a conflict of interest issue because no research relevant to either the 1992 Agreement, as amended, or to Amendment #2 is being conducted at U. T. Austin. Additionally, no current U. T. Austin employee holds stock in Focal, is an officer or employee of Focal, or serves on any governing board of Focal.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsection 6.1 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for the U. T. Board of Regents to acquire equity in Focal.

8. U. T. Austin: Recommendation for Approval for an Individual to Continue to Hold Equity in IGEN International, Inc., Gaithersburg, Maryland.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Faulkner that the U. T. Board of Regents approve the continued holding of equity in IGEN International, Inc., Gaithersburg, Maryland, by Dr. Allen J. Bard, Professor and holder of the Norman Hackerman-Welch Regents Chair in Chemistry in the Department of Chemistry and Biochemistry at U. T. Austin.

BACKGROUND INFORMATION

Dr. Allen J. Bard, Professor and holder of the Norman Hackerman-Welch Regents Chair in Chemistry in the Department of Chemistry and Biochemistry at U. T. Austin, is one of the creators of the following inventions (collectively the "Inventions"):

- a. U. S. Patent Application No. 051,342 "An Electrochemiluminescent Label Based on Multimetallic Assemblies", Bard & Schmehl
- b. U. S. Patent No. 5,324,457 "Devices And Methods For Generating Electrogenerated Chemiluminescence", Bard et al.
- c. U. S. Patent Application No. 417,726 "Devices and Methods for Generating Electrogenerated Chemiluminescence", Bard et al.
- d. U. S. Patent Application No. 706,428 "Biosensor for and Method of Electrogenerated Chemiluminescent Detection of Nucleic Acid Absorbed to a Solid Surface", Bard et al.
- e. U. S. Patent Application No. 385,864 "Electrogenerated Chemiluminescence Labels for Analysis and/or Referencing", Bard et al.
- f. U. S. Patent Application No. 296,630 "Biosensor for and Method of Electrogenerated Chemiluminescent Detection of Nucleic Acid Absorbed to a Solid Surface", Bard et al.

On January 31, 1995, the U. T. Board of Regents approved an agreement ("the 1995 License Agreement") licensing Inventions b. through f. to IGEN International, Inc. ("IGEN"), a for-profit corporation with its principal place of business in Gaithersburg, Maryland. The 1995 License Agreement is now being amended to provide additional consideration to U. T. Austin in return for revisions to certain royalty provisions ("First Amendment to the 1995 License Agreement"). The proposed First Amendment to the 1995 License Agreement has been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. Under the First Amendment to the 1995 License Agreement, U. T. Austin will receive an

initial royalty of \$30,000, and Dr. Bard's laboratory will receive an unrestricted grant of \$25,000 to conduct research.

Under a proposed agreement related to Invention a., which is jointly owned by the U. T. Board of Regents and Tulane University, U. T. Austin recommends the grant of a license to IGEN that would be retroactive with an effective date of October 7, 1997 ("Patent Option and License Agreement"). The provisions of this agreement have been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. The Patent Option and License Agreement grants IGEN a license to manufacture, have manufactured, use and/or sell licensed products throughout the world. Also, the U. T. Board of Regents grants IGEN an option to license exclusively future technology created in Dr. Bard's laboratory in the field of electrochemiluminescent products and services. Under the Patent Option and License Agreement, IGEN will pay U. T. Austin an initial royalty of \$5,000, an additional royalty of \$5,000 upon each filing of a new patent application, and a royalty of \$5,000 upon the allowance of each patent application. IGEN will also provide an unrestricted grant of \$70,000 per year for four years to support Dr. Bard's research laboratory. Pending execution of the Patent Option and License Agreement, IGEN is presently prosecuting the licensed patent application at its own expense. The proposed license agreement includes standard language indemnifying the U. T. Board of Regents. Dr. Bard has nine additional patents and patent applications that are expressly excluded from the proposed license agreement.

Dr. Bard has been and is currently a consultant and a member of IGEN's Scientific Advisory Board. He owns 61,250 shares of IGEN and is negotiating an option agreement to purchase an additional 10,000 shares over a five-year period. Other than his current role, Dr. Bard has not held any position with IGEN and he will not serve as a member of the Board of Directors. Dr. Bard will continue to perform only basic research in the area of electrochemiluminescence and plans to publish his research results. Similarly, students and postdoctoral fellows working with Dr. Bard will be free to discuss their work with others, both within and outside of U. T. Austin.

U. T. Austin has determined that the proposed First Amendment to the 1995 License Agreement and the proposed license of Invention a. to IGEN are appropriate since the activities of IGEN involve applied research whereas Dr. Bard's U. T. Austin research involves basic research. Dr. Bard is willing to cooperate with U. T. Austin in implementing any management steps necessary to ensure that no actual conflicts of interest occur.

In a letter dated June 23, 1998, and addressed to Dr. Mary Ann Rankin, Dean of the College of Natural Sciences, Dr. Bard affirms that he is agreeable to having a faculty member from his department serve as an independent monitor of all research he performs under the Patent Option and License Agreement to ensure that no actual conflicts of interest occur.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsections 6.2 and 7.1 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for Dr. Bard to continue to hold equity in IGEN.

9. U. T. Dallas: Recommendation for Approval for Individual to Continue to Hold Equity in and Serve as a Member of the Board of Directors of Magnetic Resonance Solutions, Inc., Dallas, Texas.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Jenifer that the U. T. Board of Regents approve the continued holding of equity in and service as a member of the Board of Directors of Magnetic Resonance Solutions, Inc., Dallas, Texas, by Dr. A. Dean Sherry, Professor, Department of Chemistry, School of Natural Sciences and Mathematics at U. T. Dallas.

BACKGROUND INFORMATION

Dr. A. Dean Sherry, Professor in the Department of Chemistry at U. T. Dallas, has created four inventions: (1) "Polyazamacrocyclic Compounds for Complexation of Metal Ions," (2) "Polyazamacrocyclic Compounds for Intracellular Measurements of Metal Ions Using MRI," (3) "Tissue-Specific Chelating Agents for Diagnostic and Therapeutic Applications," and (4) "Synthesis of Novel Molecular Sieves Using a Metal Complex as Template" (collectively the "Inventions").

The Inventions will be licensed to Magnetic Resonance Solutions, Inc. ("MRS") under a proposed Patent and Technology License Agreement. The provisions of the proposed license agreement have been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. Under this license agreement, MRS is granted a royalty-bearing, exclusive worldwide license to manufacture, have manufactured, use and/or sell the Inventions within the licensed field of magnetic resonance imaging contrast agents excluding magnetic resonance imaging contrast agents that use bifunctional ligands. MRS will pay the U. T. Board of Regents a running royalty of ten percent (10%) of net sales of licensed products. This license agreement also includes standard language indemnifying the U. T. Board of Regents. MRS, an early stage biotechnology company, was established to develop novel technologies for magnetic resonance imaging and is based upon Dr. Sherry's Inventions licensed to DOW Chemical Company of Midland, Michigan ("DOW Chemical"), and subsequently released by DOW Chemical to the U. T. Board of Regents on May 23, 1997. MRS will continue to work with DOW Chemical, and DOW Chemical will pay all patent prosecution and maintenance costs, including foreign filings.

Dr. Sherry is currently an equity shareholder of MRS and a member of the company's Board of Directors. U. T. Dallas has determined that a license to MRS is appropriate as the activities of MRS involve applied research and the manufacturing of magnetic resonance imaging compounds, whereas Dr. Sherry's laboratory at U. T. Dallas performs basic research. Further, U. T. Dallas determined that there was no conflict of interest since the technology has been determined to have poor marketability and licensing potential based upon release of the initial license to the U. T. Board of Regents on May 23, 1997, after the original Licensee (DOW Chemical) had undertaken a lengthy search to find a sublicensee. U. T. Dallas determined that licensing to MRS would potentially be more profitable for U. T. Dallas and the U. T. Board of Regents than returning all rights to the inventor.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsections 6.2 and 7.1 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for Dr. Sherry to continue to hold equity in and serve as a member of the Board of Directors of MRS.

10. U. T. Pan American: Recommendation for Approval to Establish the Rio Grande Valley Historical Collection Advisory Council.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs, the Vice Chancellor for Development and External Relations, and President Nevarez that approval be given to establish the Rio Grande Valley Historical Collection Advisory Council at U. T. Pan American, pursuant to the Regents' Rules and Regulations, Part One, Chapter VII, Section 3, regarding the advisory councils of a component institution.

BACKGROUND INFORMATION

The Rio Grande Valley Historical Collection was established in June 1997 and is the primary location for U. T. Pan American library materials dealing with the geographic area from Laredo, Texas, to Corpus Christi, Texas, and south to Ciudad Victoria, Tamaulipas, Monterrey, Nuevo León and Saltillo, Coahuila, Mexico. The Collection is comprised of secondary materials written after the fact based upon research taken from a variety of sources and primary materials written at the time an event occurred. Also included in the Collection are telephone books, city directories, periodicals and newspapers, land abstracts, oral and video history tapes, maps, and photographs.

The primary function of the Rio Grande Valley Historical Collection Advisory Council at U. T. Pan American will be to advise and make recommendations with regard to the interests and needs of the Collection including developing public and private partnerships, to assist in securing financial support for the library, to promote the positive image of the library, and to act as an advocate for the library.

Membership will be 8-24 members with initial appointments serving for one, two, or three-year terms and all non-initial appointments serving three-year terms.

11. U. T. San Antonio: Request for Authorization to Establish a Doctor of Philosophy Degree in Culture, Literacy, and Language and to Submit the Proposed Degree Program to the Coordinating Board for Approval (Catalog Change).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Vice Chancellor for Academic Affairs and President Kirkpatrick that authorization be granted to establish a Doctor of Philosophy degree in Culture, Literacy, and Language at U. T. San Antonio and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. While the proposed degree program is consistent with the Table of Programs approved by the U. T. Board of Regents, the Table of Programs approved by the Texas Higher Education Coordinating Board for U. T. San Antonio will require amendment. A description of the degree program is included in the background information of this agenda item.

Upon approval by the Coordinating Board, the next appropriate catalog published by U. T. San Antonio will be amended to reflect this action.

BACKGROUND INFORMATION

Program Description

The proposed Doctor of Philosophy degree in Culture, Literacy, and Language at U. T. San Antonio focuses on the social, linguistic, and cultural factors which affect language proficiency and literacy. Like similar programs at the University of Arizona and Stanford University, it draws on work in anthropology, biliteracy, education, linguistics, political science, public administration, psychology, and sociology that bears on the cultural, linguistic, political, and social contexts of literacy. More specifically, the program addresses a host of issues such as language development in a bilingual and multicultural context and its consequences for literacy; factors affecting academic language proficiency; language policies needed to promote the improvement of educational outcomes for linguistic minorities;

effective methods for preparing teachers for linguistically and culturally diverse schools; policies needed to address the systemic shortage of such teachers; the creation of educational environments that enhance language and literacy development for all cultural groups; and the relationship of attitudinal factors to the development of literacy and language proficiency.

The proposed program will be administered by the Director of the Division of Bicultural-Bilingual Studies under the supervision of the Dean of the College of Social and Behavioral Sciences and in collaboration with the Doctoral Studies Committee at U. T. San Antonio. Minimum requirements for the degree are a satisfactory doctoral dissertation and 45 student credit hours of regular formal course work beyond the master's level, including three hours of proseminar, 12 hours of research methods, and nine hours of core courses. In addition, students in consultation with their academic advisor and the Graduate Advisor, will select 12 semester credit hours in a coherent interdisciplinary area of study selected from the Bicultural-Bilingual Studies and related graduate programs such as Anthropology, Business, Education, History, Linguistics, Political Science, Psychology, Public Administration, Sociology, and Spanish.

Program Need

In addressing these issues, the proposed Doctor of Philosophy in Culture, Literacy, and Language degree program focuses on areas that are crucial to the economic and social well-being of both the State of Texas and the nation as a whole. The greatest population growth in Texas and in the United States over the next fifty years is projected to be among ethnic and linguistic minorities. The participation of these groups in the educational system, and consequently the average educational achievement, is significantly lower than that of the linguistic and ethnic majority. The proposed doctoral degree in Culture, Literacy, and Language will generate both knowledgeable leaders and basic research needed to help educators, policymakers, and business and community leaders confront these potential problems.

No Texas university currently offers a doctoral degree program similar in design to the proposed Doctor of Philosophy in Culture, Literacy, and Language. The University of Arizona offers a Ph.D. in Language, Reading and Culture, and Stanford University offers a Ph.D. in Language, Literacy, and Culture. Both of these programs have primary residence within the respective Colleges of Education. The University of Colorado-Boulder offers a Ph.D. in Social and Multicultural Foundations

of Education with an emphasis in bilingual literacy. By contrast, the proposed Doctor of Philosophy in Culture, Literacy, and Language degree program at U. T. San Antonio is unique in being offered by an interdisciplinary academic unit outside the Division of Education. The participating faculty represent a large range of disciplines.

San Antonio is positioned to serve as a natural laboratory for the study of bicultural-bilingual issues. San Antonio, with a metropolitan population of more than one million, is the ninth largest city in the country. According to 1990 Census Bureau data, approximately 56 percent of the population is Hispanic and over 40 percent of all San Antonio households reported that a language other than English is spoken in the home.

The University expects to admit a cohort of approximately ten students each fall from a pool of highly qualified applicants. A survey of the 110 graduate students currently enrolled in the Master of Arts in Bicultural-Bilingual Studies program and surveys of members of the Texas Teachers of English to Speakers of Other Languages and of attendees at a conference of the National Association for Bilingual Education indicated a strong interest in the program among qualified potential applicants. Interest is also demonstrated by the fact that more than 40 graduates of the U. T. San Antonio Master of Arts in Bicultural-Bilingual Studies have pursued doctoral studies at other institutions.

Program Quality

The University has systematically developed the capacity to offer the proposed degree. As early as Spring 1993, the University employed nationally recognized consultants to assist the faculty with designing a program.

Fifteen tenure-track faculty members, whose doctoral degrees were earned from 12 different universities, will have the primary responsibility for offering the program. An additional 25 supporting faculty who have related research interests will be available to serve on dissertation committees. Several of the program and support faculty have received external funding, and many have recently published related articles in recognized scholarly journals.

The curriculum has been designed to ensure that all students have a common body of knowledge which provides the theoretical framework for dissertation research in a variety of policy and application areas. In addition, a large number of existing courses are available to support a specific dissertation research agenda.

The University's normal standards, policies, and procedures for admission to a doctoral program and advancement to candidacy will be followed.

Program Costs

Over the first five years of the program, the University will add five additional faculty and one staff assistant at an estimated annual cost of just under \$400,000. Approximately \$300,000 will come from the formula-based state appropriation, with the balance coming from new external research funding and internally reallocated institutional funds.

Summary

U. T. San Antonio proposes to offer a Doctor of Philosophy degree in Culture, Literacy, and Language. Graduates will be prepared to take leadership roles in education and policy formation related to the acquisition of literacy and language in bicultural/bilingual populations.

A copy of the proposal for the Doctor of Philosophy degree in Culture, Literacy, and Language for U. T. San Antonio is on file in the U. T. System Office of Academic Affairs.

INFORMATIONAL REPORT

U. T. System: Report on the Status of Reading-Related Preparation Activities in Teacher Certification Programs.--

REPORT

As a follow-up to the reading programs presentation to the U. T. Board of Regents at the May 1998 meeting, Chancellor Cunningham will report on the appointment of a steering committee for the U. T. System Reading Initiative, the extent to which reading-related research at U. T. System component institutions is being incorporated into the training of future teachers, the development of a System-wide standard for reading preparation programs, and plans for a System-sponsored conference for all U. T. System reading faculty and researchers.

Health Affairs Committee

HEALTH AFFAIRS COMMITTEE
Committee Chairman Loeffler

Date: August 13, 1998
Time: Following the Meeting of the Academic Affairs
Committee
Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith
Hall

- | | <u>Page</u>
<u>HAC</u> |
|---|---------------------------|
| 1. U. T. System - Lower Rio Grande Valley Regional Academic Health Center (RAHC): Consider Recommendations of Kaludis Consulting Group, Washington, D. C., Regarding the Approval for Site Selection, Approve Delegation of Authority to Negotiate and Execute Necessary Documents, and Consider Assignment of the RAHC to a U. T. System Health Science Center | 3 |
| 2. U. T. M.D. Anderson Cancer Center: Recommendation to Establish the Virginia Harris Cockrell Cancer Research Center at the U. T. M.D. Anderson Science Park - Research Division | 4 |
| 3. U. T. M.D. Anderson Cancer Center: Recommendation for Approval for Individuals to Continue to Hold Equity in and Serve as Members of the Board of Directors of Signase, Inc., Houston, Texas | 5 |
| 4. U. T. Health Center - Tyler: Recommendation for Approval for Individual to Acquire Equity in and to Serve as a Member of the Scientific Advisory Board of D'Trends, Inc., San Ramon, California | 8 |

INFORMATIONAL REPORT

U. T. M.D. Anderson Cancer Center: Presenta-
tion on Cancer Prevention

9

1. U. T. System - Lower Rio Grande Valley Regional Academic Health Center (RAHC): Consider Recommendations of Kaludis Consulting Group, Washington, D. C., Regarding the Approval for Site Selection, Approve Delegation of Authority to Negotiate and Execute Necessary Documents, and Consider Assignment of the RAHC to a U. T. System Health Science Center.--

RECOMMENDATION

Kaludis Consulting Group, Washington, D. C., will present a final report and recommendations regarding the Lower Rio Grande Valley Regional Academic Health Center (RAHC) at the August 1998 U. T. Board of Regents' meeting. In addition, the U. T. Board of Regents will consider delegation of authority to negotiate and execute necessary documents and will consider the assignment of the RAHC to a U. T. System Health Science Center.

BACKGROUND INFORMATION

The establishment of the RAHC was authorized in accordance with Senate Bill 606, 75th Texas Legislature. Senate Bill 606 authorized the U. T. System to operate the new center in the Lower Rio Grande Valley with the actual site selection to be determined by the U. T. Board of Regents.

The U. T. Board of Regents hired Kaludis Consulting Group to conduct the process to select the best site for the RAHC. An official request for site proposals was issued on January 5, 1998, with responses due on July 2, 1998.

One response to the official request for site proposals for the U. T. System Lower Rio Grande Valley RAHC was received from the Lower Rio Grande Valley Academic Health Center Foundation, Inc. Following evaluation of the bid, Kaludis Consulting Group will present recommendations at the August 1998 Board meeting.

2. U. T. M.D. Anderson Cancer Center: Recommendation to Establish the Virginia Harris Cockrell Cancer Research Center at the U. T. M.D. Anderson Science Park - Research Division.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Development and External Relations, and President Mendelsohn that the U. T. Board of Regents, on behalf of the U. T. M.D. Anderson Cancer Center, approve the establishment of the Virginia Harris Cockrell Cancer Research Center at the U. T. M.D. Anderson Science Park - Research Division located in Smithville, Texas, in recognition of a \$5 million gift from the Cockrell Foundation, Houston, Texas. This Research Center will encompass a wide variety of research programs that will be conducted throughout the entire U. T. M.D. Anderson Science Park campus.

BACKGROUND INFORMATION

The Cockrell Foundation, based in Houston, Texas, was established in 1957 by Dula Cockrell, Ernest D. Cockrell, Jr., and his wife, Virginia Harris Cockrell. A \$5 million gift from this Foundation was accepted by the U. T. Board of Regents at the May 1998 meeting. The gift was given to U. T. M.D. Anderson Science Park in honor of the late Virginia Harris Cockrell. It is the largest single gift presented to the Science Park - Research Division and will establish an endowment to fund innovative pilot research initiatives, specialized equipment purchases, educational programs, and various community outreach projects.

The U. T. M.D. Anderson Science Park - Research Division is located near Smithville, Texas, and this campus focuses on understanding the causes of cancer and ways to prevent cancer. A team of about 200 researchers and staff at the U. T. M.D. Anderson Science Park study how the environment might encourage the development of diseases such as cancer. Several notable recent accomplishments at the U. T. M.D. Anderson Science Park - Research Division include the designation as one of the 19 Environmental Health Sciences Centers by the National

Institute of Environmental Sciences and the first molecular evidence directly linking a cigarette carcinogen and human lung cancer.

The term "research center" is being used by U. T. M.D. Anderson Cancer Center to designate a major multidisciplinary research initiative that involves many disciplines at both the U. T. M.D. Anderson Science Park campus and the U. T. M.D. Anderson Cancer Center campus in Houston. The term "research center" is not being used to designate a building or an operating unit separate from the U. T. M.D. Anderson Cancer Center.

This proposed naming of a major research center in honor of a significant donor is consistent with current practice and follows approval procedures included in the proposed revisions to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, as set out in Item 1 on Page FCC - 4.

3. U. T. M.D. Anderson Cancer Center: Recommendation for Approval for Individuals to Continue to Hold Equity in and Serve as Members of the Board of Directors of Signase, Inc., Houston, Texas.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and President Mendelsohn that the U. T. Board of Regents, on behalf of the U. T. M.D. Anderson Cancer Center, approve the continued holding of equity in and service as members of the Board of Directors of Signase, Inc., Houston, Texas, by Victor A. Levin, M.D., Professor, and Raymond Budde, Ph.D., Associate Professor, both in the Department of Neuro-Oncology at the U. T. M.D. Anderson Cancer Center.

BACKGROUND INFORMATION

Professor Victor A. Levin, M.D., and Associate Professor Raymond Budde, Ph.D., both in the Department of Neuro-Oncology

at U. T. M.D. Anderson Cancer Center, have created the following three inventions (collectively the "Inventions"):

- (1) "Anti-Cancer Drugs Whose Mechanism of Action is the Inhibition of the Protein Tyrosine Kinase Known as Src or pp60", UTSC:479, Raymond J. Budde, Ph.D., Jonathan Ellman, Ph.D., Gary E. Gallick, Ph.D.
- (2) "Cyclic Peptide Inhibitors of pp60c-src(Src) as Anti-Cancer Therapy", UTSC:480, John S. McMurray, Ph.D., Raymond J. Budde, Ph.D., Victor A. Levin, M.D.
- (3) "1,4-Benzodiazepin-2-One-Based Inhibitors of pp60c-src", UTSC:505, Raymond J. Budde, Ph.D., Victor A. Levin, M.D., Gary E. Gallick, Ph.D.

The Inventions will be licensed to Signase, Inc. ("Signase") under a proposed Patent and Technology License Agreement. The provisions of the proposed license agreement have been reviewed and approved pursuant to the Regents' Rules and Regulations by the chief administrative officer or designee and the Office of General Counsel. Under this license agreement, Signase is granted a royalty-bearing, exclusive license under licensed subject matter to use, develop, sublicense and/or sell licensed products throughout the world for use in the field of inhibitors of protein kinases. Signase will pay the U. T. Board of Regents:

- a. A ten thousand dollar (\$10,000.00) license fee payable within thirty (30) days after September 1, 1998;
- b. A running royalty equal to four percent (4%) of Signase's net sales of licensed products where the licensed subject matter is covered by one (1) or more issued patents or pending patent applications; and
- c. Two percent (2%) of Signase's net sales of licensed products where the licensed subject matter is not covered by one (1) or more issued patents or pending patent applications.

The license agreement provides for reimbursement to U. T. M.D. Anderson Cancer Center of all patent expenses incurred to date and all future patent expenses. Additionally, it includes standard language indemnifying the U. T. Board of Regents.

Drs. Levin and Budde, faculty members at the U. T. M.D. Anderson Cancer Center, are currently equity shareholders in Signase and are serving on its Board of Directors. U. T. M.D. Anderson Cancer Center has determined that a license to Signase is appropriate as the activities of Signase involve applied research, whereas Drs. Levin and Budde perform basic research at U. T. M.D. Anderson Cancer Center. Additionally, both Drs. Levin and Budde have been directed by President Mendelsohn of the U. T. M.D. Anderson Cancer Center, and they have agreed, not to hold any office nor serve as a member of the Board of Directors of Signase if such service would conflict with their commitments to or the interests of the U. T. M.D. Anderson Cancer Center. The issues relating to Drs. Levin and Budde holding equity or serving as officers or members of the Board of Directors of Signase were submitted to the U. T. M.D. Anderson Cancer Center Conflict of Interest Committee. This Committee has advised Drs. Levin and Budde of their continuing obligations for disclosure and other requirements to mitigate any actual or potential conflict of interest or commitment.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsections 6.2, 7.1, and 7.2 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for Drs. Levin and Budde to continue to hold equity in and serve as members of the Board of Directors of Signase.

4. U. T. Health Center - Tyler: Recommendation for Approval for Individual to Acquire Equity in and to Serve as a Member of the Scientific Advisory Board of D'Trends, Inc., San Ramon, California.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs and Acting Director Garvey that the U. T. Board of Regents approve the acquisition of equity in and service as a member of the Scientific Advisory Board of D'Trends, Inc., San Ramon, California, by Dr. Cathy H. Wu, Associate Professor, Department of Epidemiology/Biomathematics at The University of Texas Health Center at Tyler.

BACKGROUND INFORMATION

D'Trends, Inc. ("D'Trends") is a bioinformatics corporation having offices in San Ramon, California. The U. T. Health Center - Tyler entered into a Software License Agreement with D'Trends effective November 3, 1997. The agreement granted D'Trends a royalty-bearing, nonexclusive, nontransferable, and nonassignable three-year worldwide license under software created at the U. T. Health Center - Tyler by Dr. Cathy H. Wu relating to GeneFind (Gene Family Identification Network Design) software program and its associated ProClass protein family database.

Dr. Wu has requested approval from the U. T. Board of Regents to serve on D'Trends Scientific Advisory Board in exchange for options for two thousand shares of stock. U. T. Health Center - Tyler has determined that no conflict of interest exists between Dr. Wu's academic and research responsibilities to U. T. Health Center - Tyler and her responsibilities as a scientific advisor to D'Trends because the activities of D'Trends involve applied research and product development, and Dr. Wu's laboratory performs basic research and algorithm design. Further, to minimize the chance of a potential conflict developing into a full conflict, Dr. Wu will seek review and approval for her research projects for or with

support from D'Trends from the offices of the U. T. Health Center - Tyler Associate Director for Research and the Director of Sponsored Programs.

The proposed arrangement is consistent with Section 51.912 of the Texas Education Code and corresponding provisions of the U. T. System Intellectual Property Policy. Pursuant to Part Two, Chapter XII, Subsections 6.2 and 7.1 of the Regents' Rules and Regulations, approval by the U. T. Board of Regents is necessary for Dr. Wu to acquire equity in and serve as a member of the Scientific Advisory Board of D'Trends.

INFORMATIONAL REPORT

U. T. M.D. Anderson Cancer Center: Presentation on Cancer Prevention.--

REPORT

Officials from the U. T. M.D. Anderson Cancer Center, under the direction of President Mendelsohn, will make an interactive presentation on cancer prevention. The presentation will consist of four seven-minute segments as follows:

- a. Growth of Our Division: Prevention Center, Learning Center Risk Assessment and Risk Reduction; Molecular Epidemiology by Bernard Levin, M.D., Vice President for Cancer Prevention
- b. Breast Cancer Prevention Trial by Scott M. Lippman, M.D., Chairman, Department of Clinical Cancer Prevention
- c. Smoking Cessation; Tobacco Control by Ellen R. Gritz, Ph.D., Chairman, Department of Behavioral Science
- d. Chemoprevention of Head and Neck Cancer by Waun Ki Hong, M.D., Chairman, Department of Thoracic and Head and Neck Medical Oncology.

**Facilities, Planning & Construction
Committee**

FACILITIES PLANNING AND CONSTRUCTION COMMITTEE
Committee Chairman Clements

Date: August 13, 1998
Time: Following the Meeting of the Health Affairs
Committee
Place: Regents' Meeting Room, Ninth Floor, Ashbel Smith
Hall

	<u>Page</u> <u>FPCC</u>
1. U. T. Board of Regents: Proposed Amendments to the Regents' <u>Rules and Regulations</u> , Part One, Chapter VIII, Section 1 (Naming of Buildings and Other Facilities)	4
2. U. T. Austin - Fine Arts Library and Administration Building: Request for Approval to Name Building (Regents' <u>Rules and Regulations</u> , Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities)	7
3. U. T. Austin - Lower Existing Football Field (Project No. 102-865): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity	8
4. U. T. Pan American - Science Complex Renovation: Request for Project Redesignation	14

5. U. T. Southwestern Medical Center - Dallas - North Campus Expansion - Phase III Finish Out (Project No. 303-954): Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity 15
6. U. T. Medical Branch - Galveston - Chilled Water Distribution and Generation Phase I and Thermal Energy Plant Upgrade: Request for Project Redesignation; Incorporation of the Thermal Energy Plant Upgrade into the Chilled Water Distribution and Generation Phase I; Approval of Total Project Cost; and Appropriation of Funds 21
7. U. T. Medical Branch - Galveston - Graves Building and Mary Moody Northen Pavilion Remodel (Project No. 601-942): Appropriation of Funds and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt Certificate, and Finding of Fact with Regard to Financial Capacity 22
8. U. T. Medical Branch - Galveston - TDCJ Hospital Cladding Restoration: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project and Appropriation of Funds 27
9. U. T. Health Science Center - Houston - Nursing and Biomedical Sciences Building Phase I: Request for Project Redesignation and Approval of Preliminary Project Cost 28
10. U. T. Health Science Center - San Antonio - Cancer Research Building: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project and Authorize a Private Fund-Raising Campaign (Regents' Rules and Regulations, Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44) 30

11. U. T. Health Science Center - San Antonio -
Parking Garage (Project No. 402-931): Request
for Project Redesignation; Approval of Design
Development Plans; Approval of Total Project
Cost; Appropriation of Funds and Authorization
of Expenditure; and Approval of Use of Revenue
Financing System Parity Debt, Receipt of Parity
Debt Certificate, and Finding of Fact with
Regard to Financial Capacity 31

12. U. T. M.D. Anderson Cancer Center - Consoli-
dated Office Facility: Request for Project
Redesignation and Approval of Preliminary
Project Cost 38

1. U. T. Board of Regents: Proposed Amendments to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1 (Naming of Buildings and Other Facilities).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Academic Affairs, and the Vice Chancellor for Development and External Relations that the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, regarding naming of buildings and other facilities, be retitled and amended as set forth below in congressional style:

Sec. 1. Honorific Namings [of Buildings and Other Facilities].

- 1.1 The naming of buildings; [and] other major facilities, such as wings of buildings, major components of buildings, large [laboratories, classrooms, seminar rooms,] auditoria, concert halls, atriums, prominent outdoor spaces, and clinics; and other major entities, such as colleges, schools, academic departments, and major academic centers, programs and institutes[,-and patient rooms] of the U. T. System and its component institutions, whether for an individual or with a functional or historical designation, is the prerogative and responsibility of the Board of Regents and can be initiated by the Board when circumstances warrant. When recommendations for naming of buildings or other major facilities or entities originate at other than the level of the Board, such recommendations shall be forwarded to the Board of Regents with recommendations of the Chancellor, the Executive Vice Chancellor for Health Affairs or the Vice Chancellor for Academic Affairs, [if appropriate,] the Vice Chancellor for Development and External Relations, and the [appropriate] chief administrative officer, accompanied by reasons for the recommendation, and following campus consultations where appropriate. Recommendations for naming of buildings or major facilities or

entities require Board of Regents' approval via the agenda. For less prominent facilities such as laboratories, classrooms, seminar rooms, and patient rooms or for less prominent academic centers, programs, and institutes, naming authority is delegated to each component chief administrative officer based on a set of general guidelines which are reviewed and approved by the Chancellor. An annual report of such namings will be included with the annual operating budget submission or updated Capital Improvement Program. [~~Recommendations for naming of other facilities shall be submitted for Regental approval via the docket.~~]

1.2 Facilities [~~Buildings~~] and other entities [~~facilities~~] may be named to memorialize or otherwise recognize substantial gifts and significant donors^[7] or individuals designated by donors [~~, or individuals who have made exemplary or meritorious contributions to the System, component institution, or society~~]. Such designation may be for a single gift, multiple gifts over time, or for a combination of gifts and other contributions. Buildings and other entities may also be named for individuals who have made exemplary or meritorious contributions to the System, component institution, or society.

1.3 Each component institution will develop guidelines for what constitutes substantial and significant donations to warrant a naming [~~building name~~]. These guidelines may vary from campus to campus and sometimes within a campus dependent upon the nature and purpose of the facility or entity [~~building~~] or other factors. Institutional donor guidelines are subject to prior administrative review and approval procedures for inclusion in the institutional Handbook of Operating Procedures. Exceptions to any approved guidelines are subject to the same approval process.

- 1.4 Namings [~~The naming of buildings and other facilities~~] in honor of campus administrative officials, faculty, or staff or elected or appointed public officials shall normally occur only after the campus employment or public service has concluded.
- 1.5 When the naming of buildings or other major facilities or entities is contemplated as part of a special private-fund development campaign, that campaign, the proposed naming, [~~buildings to be named~~] and the associated private-fund contributions to be sought shall have prior approval of the chief administrative officer, the Executive Vice Chancellor for Health Affairs[7] or the Vice Chancellor for Academic Affairs, the Vice Chancellor for Development and External Relations, [~~if appropriate,~~] the Chancellor, and the Board as required in Part One, Chapter VII, Section 2, Subdivision 2.44 of the Regents' Rules and Regulations. [~~Recommendations by the Chancellor, the Executive Vice Chancellor for Health Affairs, if appropriate, and chief administrative officer regarding the naming of each building or facility included in a fund development campaign shall be submitted to the Board of Regents for approval as set forth in Subsection 1.1 above.~~]
- 1.6 The Chancellor will arrange for the Board of Regents to be briefed periodically by component chief administrative officers and System administrative officials via the annual budget process or other appropriate forum regarding buildings or other major facilities or entities to be named and the private-fund contributions to be sought. Unexpected naming opportunities not covered in such briefings should be reviewed with the Board via regular Board of Regents' briefings. No commitment regarding the naming of a building or major facility or entity is to be made prior to the briefings and approvals required by this Section.

BACKGROUND INFORMATION

The proposed amendments to the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, regarding naming of buildings and other facilities, are intended to clarify and distinguish procedures for the naming of major facilities and entities such as buildings, colleges/schools, and distinguish prominent academic programs, centers, and institutes from the delegated approval for the naming of less prominent facilities and entities. As the Vice Chancellor for Development and External Relations is now involved in the review of proposed namings, the proposed edits also conform the written policies to the current review procedure.

These proposed amendments have been revised based upon review by the chief administrative officers and the Office of General Counsel.

2. U. T. Austin - Fine Arts Library and Administration Building: Request for Approval to Name Building (Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Naming of Buildings and Other Facilities).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, the Vice Chancellor for Development and External Relations, and President Faulkner that the U. T. Board of Regents approve the naming of the Fine Arts Library and Administration Building at U. T. Austin as the E. William Doty Fine Arts Building in honor of Dr. E. William Doty, former Dean of the College of Fine Arts at U. T. Austin.

BACKGROUND INFORMATION

Dr. E. William Doty was named Dean of the College of Fine Arts at U. T. Austin in 1938, the year the College was founded, and served with distinction until 1972. He then taught for another four years before retiring. Dean Doty

imprinted a standard of excellence on the College of Fine Arts, building a faculty of extraordinary artists and educators, while developing model programs in each discipline and in the College's auxiliary units. He oversaw the development of a university gallery (now the Jack S. Blanton Museum of Art), professional-caliber performance ensembles, a Shakespeare-focused theatre curriculum, and an opera-training program that led to the development of the Performing Arts Center. During his 34 years as Dean, he brought distinction to the College through his professional affiliations with other fine arts programs and educational institutions throughout the country.

The Fine Arts Library and Administration Building was constructed in 1979 and currently houses the administrative offices of the Dean of the College of Fine Arts and the Fine Arts Library, which is a branch of the General Libraries. Naming the Fine Arts Library and Administration Building in Dr. Doty's honor is a tribute to his leadership and commemorates his outstanding contributions to the College of Fine Arts.

The proposed naming of the Fine Arts Library and Administration Building at U. T. Austin as the E. William Doty Fine Arts Building is consistent with the Regents' Rules and Regulations and U. T. Austin guidelines on naming of buildings.

3. U. T. Austin - Lower Existing Football Field (Project No. 102-865): Request for Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Vice Chancellor for Academic Affairs, and President Faulkner that the U. T. Board of Regents:

- a. Approve design development plans for the Lower Existing Football Field project at U. T. Austin

- b. Approve a total project cost of \$3,200,000
- c. Appropriate funds and authorize expenditure of \$2,700,000 from Revenue Financing System Bond Proceeds and \$500,000 from Auxiliary Enterprise Balances for total project funding.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 12, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's cost, including any costs 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 U. T. Board of Regents relating to the Financing System
- c. U. T. Austin, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$2,700,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The Lower Existing Football Field project at U. T. Austin is the seventh and last in a series of projects for the renovation and expansion of intercollegiate athletic activities at U. T. Austin approved by the U. T. Board of Regents in February 1996. The scope of work includes lowering of the existing playing field in the Darrell K Royal - Texas Memorial Stadium and the addition of approximately 1,425 sideline seats along the east and west grandstands. The lowering of the field will improve the sight lines for the first 10 to 15 rows of seats and will displace the existing running track. The timing of this project coincides with the completion of the new Mike A. Myers Track, the Mike A. Myers Stadium and Soccer Field, and Parking Facility to avoid disruption in the use of the track.

The original scope of work as reflected in the FY 1998-2003 Capital Improvement Program anticipated lowering the field by four to six feet. However, upon further study it was determined that excavating up to eight feet would make additional improvements to the sight lines. The estimated total project cost of \$3,200,000 reflects the current cost of the project at the design development stage which includes the additional excavation work and the current market price for construction.

The debt is to be repaid from existing and additional receipts collected by the Department of Intercollegiate Athletics for Men. The additional receipts consist of ticket revenues derived from approximately 1,425 new sideline seats; ticket surcharges for football, basketball, and baseball events; and lease revenues from stadium suites. Total revenues are projected to increase from approximately \$19,700,000 in FY 1998 to more than \$28,000,000 in FY 2003 as the result of the various improvements to the Darrell K Royal - Texas Memorial Stadium. Expenditures and Interdepartmental Transfers are projected to increase from \$18,000,000 in FY 1998 to approximately \$22,000,000 in FY 2003.

The construction duration for the project is expected to be nine months commencing in December 1998. Debt service is assumed during the construction phase at approximately \$101,250. Upon project completion, fixed-rate, twenty-year bond debt service is projected at \$245,043 annually. The debt service coverage and the ratio of annual debt service to operating expenses are reflected on Page FPCC - 13.

The Lower Existing Football Field project at U. T. Austin is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$2,500,000.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to establish a total project cost of \$3,200,000, with \$2,700,000 from Revenue Financing System Bond Proceeds and \$500,000 from Auxiliary Enterprise Balances.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

The University of Texas at Austin
Lowering Existing Football Field

Project Level (Actual \$)	Forecast					
	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Intercollegiate Athletics for Men - Auxiliary Financial Plan						
Beginning Fund Balance	4,407,625	2,525,503	2,320,376	3,067,286	4,083,266	5,077,330
Existing Revenues	17,496,703	17,992,577	19,450,167	19,504,194	19,796,757	20,093,708
Proj. / Enhancement Revenues (Ticket Surcharges, Suites)	2,219,908	5,339,350	6,567,607	7,761,612	7,878,036	7,996,207
Total Revenues	19,718,611	23,331,927	26,037,774	27,265,806	27,674,793	28,089,915
(Less) Operating Expenses	(16,084,681)	(17,418,482)	(18,748,471)	(19,045,144)	(19,426,047)	(19,814,566)
(Less) Inter-Departmental Transfers	(1,925,000)	(1,925,000)	(1,925,000)	(1,925,000)	(1,975,000)	(2,025,000)
Total Expenses and Transfers	(18,009,681)	(19,343,482)	(20,673,471)	(20,970,144)	(21,401,047)	(21,839,566)
Net Revenues after Expenses and Transfers	1,708,930	3,988,445	5,364,303	6,295,662	6,273,746	6,250,347
Debt Service - Existing Stadium Improvements	(913,446)	(3,592,322)	(4,372,350)	(4,284,639)	(4,284,639)	(4,284,639)
Debt Service - Lower Existing Football Field	0	(101,250)	(245,043)	(245,043)	(245,043)	(245,043)
Total Projected Debt Service	(913,446)	(3,693,572)	(4,617,393)	(4,529,682)	(4,529,682)	(4,529,682)
Transfers to Plant Funds	(2,677,606)	(500,000)	0	(750,000)	(750,000)	(750,000)
Fund Balance Increase (Decrease) for the Year	(1,882,122)	(205,127)	746,910	1,015,980	994,064	970,665
Ending Fund Balance	2,525,503	2,320,376	3,067,286	4,083,266	5,077,330	6,047,995
Debt Service Coverage	1.9	1.1	1.2	1.4	1.4	1.4

Campus Level: U.T. Austin (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	119.1	120.5	119.5	110.5	119.2	112.7	121.2	114.9	122.5
Total Current Unrestricted Revenues	641.5	678.6	703.8	758.4	764.5	804.4	817.7	846.8	850.3
Total Current Unrestricted Expenditures	(593.1)	(621.4)	(648.6)	(696.8)	(709.9)	(731.3)	(756.3)	(772.0)	(791.2)
Net Revenues	48.4	57.2	55.2	61.6	54.6	73.1	61.4	74.8	59.1
Debt Service	(18.7)	(20.1)	(22.3)	(25.2)	(34.0)	(36.5)	(37.1)	(35.3)	(32.8)
Other Mand. Transfers	(3.0)	(16.9)	(1.4)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Total Mand. Transfers	(21.7)	(37.0)	(23.7)	(26.0)	(34.7)	(37.2)	(37.8)	(36.0)	(33.5)
Non-Mand. Transfers	(22.2)	(14.4)	(37.3)	(24.7)	(24.2)	(25.2)	(27.7)	(29.0)	(25.7)
Adjustments	(3.1)	(6.8)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Net Inc./ (Dec.) for Year	1.4	(1.0)	(9.0)	8.7	(6.5)	8.5	(6.3)	7.6	(2.3)
End. Fund Balance	120.5	119.5	110.5	119.2	112.7	121.2	114.9	122.5	120.2
Debt Service Coverage	2.6x	2.8x	2.5x	2.4x	1.6x	2.0x	1.7x	2.1x	1.8x
Debt Service to Operating Expenses	3.0%	3.1%	3.3%	3.5%	4.6%	4.7%	4.7%	4.4%	4.0%

U.T. System (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,526.4	3,767.5	3,900.3	4,037.1	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,316.9)	(3,436.1)	(3,657.7)	(3,807.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	209.5	331.4	242.6	229.6	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(3.3)	(17.1)	(1.8)	(1.3)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(48.8)	(59.0)	(73.5)	(86.2)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.0x	4.4x	3.2x	2.6x	2.0x	2.2x	2.0x	2.1x	2.1x
Debt Service to Operating Expenses	1.4%	1.7%	2.0%	2.2%	2.8%	3.2%	3.3%	3.2%	2.9%

4. U. T. Pan American - Science Complex Renovation: Request for Project Redesignation.--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Vice Chancellor for Academic Affairs, and President Nevarez that the U. T. Board of Regents redesignate the Science Complex Renovation project at U. T. Pan American as the Health Sciences and Human Services West project.

BACKGROUND INFORMATION

The Science Complex Renovation project at U. T. Pan American is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget. The construction of this project is nearing completion, and a plaque approval request has been received from U. T. Pan American. The requested project redesignation as the Health Sciences and Human Services West project better conveys the determined use of the building and will be reflected in the plaque design when prepared.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the Science Complex Renovation project as the Health Sciences and Human Services West project.

5. U. T. Southwestern Medical Center - Dallas - North Campus Expansion - Phase III Finish Out (Project No. 303-954): Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Executive Vice Chancellor for Health Affairs, and President Wildenthal that the U. T. Board of Regents:

- a. Approve design development plans for the North Campus Expansion - Phase III Finish Out at U. T. Southwestern Medical Center - Dallas
- b. Approve a total project cost of \$28,000,000
- c. Appropriate funds and authorize expenditure of \$21,000,000 from Revenue Financing System Bond Proceeds and \$7,000,000 from Tuition Revenue Bonds.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 18, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's cost including any costs 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 U. T. Board of Regents relating to the Financing System

- c. U. T. Southwestern Medical Center - Dallas, which is a "Member" as such term is used in the Master Resolution, possesses the financial capacity to satisfy its direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$21,000,000. U. T. component institutions, which are "Members" as such term is used in the Master Resolution, possess the financial capacity to satisfy their direct obligation as defined in the Master Resolution relating to the issuance by the U. T. Board of Regents of tax-exempt Parity Debt in the amount of \$7,000,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

Building "NC" (designated as The Seay Biomedical Building by the U. T. Board of Regents in February 1998) is the third major new construction project at the North Campus of U. T. Southwestern Medical Center - Dallas. The building structure and enclosure are currently under construction and will be completed in November 1999. The North Campus Phase III Finish Out project includes the second, third, fourth, seventh, and eighth floors of Building "NC" and will provide approximately 157,000 gross square feet of biomedical research, graduate school, and clinical care facilities.

The Cancer Center and Breast Center will be housed on the second and third floors and will provide clinical treatment centers as well as research facilities. The Cancer Center

includes medical oncology, chemotherapy, urology functions, clinical research offices, genetics suite, medical records, and administrative offices. The Breast Center includes an ambulatory surgery center, bone marrow suite, and laboratory.

The Animal Resource Center will be located on the fourth floor and will interact with the existing animal resource functions located on the third floor of Building "NA" (designated as the Nancy B. and Jake L. Hamon Biomedical Research Building by the U. T. Board of Regents in May 1995) and Building "NB" (designated as the Simmons Biomedical Research Building by the U. T. Board of Regents in June 1991). The seventh and eighth floors will house generic biomedical laboratories and administrative offices.

The North Campus Expansion - Phase III Finish Out project at U. T. Southwestern Medical Center - Dallas is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$28,000,000.

The \$21,000,000 of Revenue Financing System Bonds are to be repaid from indirect cost recovery revenues associated with research grant activities and clinical revenues. Indirect cost recoveries and clinical revenues for FY 1997 totaled approximately \$211,000,000, comprising 62% of the institution's current unrestricted fund revenues. Commercial paper debt will be issued during FY 1999 to fund construction. Upon completion of the construction phase of the North Campus Phase III Building in FY 2000, the commercial paper debt will be converted to fixed rate, twenty-year bonds, resulting in annual debt service of approximately \$2,606,818. The debt service coverage and the ratio of annual debt service to operating expenses are reflected on Page FPCC - 19.

The debt service coverage for \$7,000,000 of Tuition Revenue Bonds is reflected on Page FPCC - 20.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the construction cost of the North Campus Expansion - Phase III Finish Out at U. T. Southwestern Medical Center - Dallas, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, and the Sixth Supplemental Resolution.

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

The University of Texas Southwestern Medical Center at Dallas
North Campus Expansion Phase III - Finish Out

Campus Level: U.T. S.M.C. at Dallas (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	95.3	121.3	136.1	155.5	181.8	171.4	181.4	192.0	209.6
Total Current Unrestricted Revenues	299.8	315.4	341.7	360.1	350.8	372.2	380.5	391.1	400.3
Total Current Unrestricted Expenditures	(263.8)	(281.9)	(306.7)	(319.7)	(337.3)	(337.7)	(348.1)	(356.1)	(367.8)
Net Revenues	36.0	33.5	35.0	40.4	13.5	34.5	32.4	35.0	32.5
Debt Service	(8.0)	(9.0)	(11.9)	(11.8)	(14.6)	(15.8)	(16.4)	(17.3)	(19.9)
Other Mand. Transfers	0.0	0.0	0.0	10.1	10.1	10.1	10.1	10.1	10.1
Total Mand. Transfers	(8.0)	(9.0)	(11.9)	(11.9)	(14.7)	(15.9)	(16.5)	(17.4)	(20.0)
Non-Mand. Transfers	(3.0)	(4.9)	(3.5)	(2.2)	(9.2)	(8.6)	(5.3)	0.0	0.0
Adjustments	1.0	(4.8)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Net Inc./ (Dec.) for Year	26.0	14.8	19.4	26.3	(10.4)	10.0	10.6	17.6	12.5
End. Fund Balance	121.3	136.1	155.5	181.8	171.4	181.4	192.0	209.6	222.1
Debt Service Coverage	4.5x	3.7x	2.9x	3.4x	0.9x	2.2x	2.0x	2.0x	1.6x
Debt Service to Operating Expenses	2.9%	3.1%	3.7%	3.6%	4.1%	4.5%	4.5%	4.6%	5.1%

U.T. System (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,526.4	3,767.5	3,900.3	4,037.1	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,316.9)	(3,436.1)	(3,657.7)	(3,807.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	209.5	331.4	242.6	229.6	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(3.3)	(17.1)	(1.8)	(1.3)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(48.8)	(58.0)	(73.5)	(86.2)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.0x	4.4x	3.2x	2.6x	2.0x	2.2x	2.0x	2.1x	2.1x
Debt Service to Operating Expenses	1.4%	1.7%	2.0%	2.2%	2.8%	3.2%	3.3%	3.2%	2.9%

**The University of Texas System
Revenue Financing System
Debt Service Coverage
(\$ in millions)**

FPCC - 20

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 2000	FY 01	FY 02	FY 03
Available Revenues	3,526.4	3,767.5	3,900.3	4,037.1	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,316.9)	(3,436.1)	(3,657.7)	(3,807.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Revenues Available for Debt Service	209.5	331.4	242.6	229.6	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(3.3)	(17.1)	(1.8)	(1.3)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service:									
Non - Tuition Related	(38.5)	(41.7)	(51.8)	(64.1)	(82.8)	(91.8)	(93.8)	(91.6)	(91.0)
Tuition Debt Service									
Bonds issued prior to 1993	(10.3)	(9.4)	(7.7)	(7.7)	(7.7)	(7.7)	(7.7)	(7.7)	0.0
South Texas Border Initiative Debt	0.0	(6.9)	(14.0)	(13.7)	(13.7)	(13.1)	(13.1)	(13.1)	(13.0)
Debt Authorized by 75th Legislature									
Approved by BOR 8/97 (renov)-\$43.9 mil				(0.6)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Approved by BOR 2/98-\$6.05 mil				(0.1)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Approved by BOR 5/98-\$5 mil				(0.01)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Recommended to BOR 8/98-\$7 mil					(0.56)	(0.56)	(0.56)	(0.56)	(0.56)
Remaining Tuition Project Financing					(2.3)	(10.3)	(17.2)	(17.2)	(17.2)
TOTAL DEBT SERVICE	(48.8)	(58.0)	(73.5)	(86.2)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage Without Tuition Bonds (x)	5.0	5.6	4.5	3.5	2.7	3.0	2.8	3.1	2.9
Debt Service Coverage With Tuition Bonds (x)	4.0	4.4	3.2	2.6	2.0	2.2	2.0	2.1	2.1

6. U. T. Medical Branch - Galveston - Chilled Water Distribution and Generation Phase I and Thermal Energy Plant Upgrade: Request for Project Redesignation; Incorporation of the Thermal Energy Plant Upgrade into the Chilled Water Distribution and Generation Phase I; Approval of Total Project Cost; and Appropriation of Funds.--

RECOMMENDATION

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

- a. Redesignate the Chilled Water Distribution and Generation Phase I project at the U. T. Medical Branch - Galveston as the Utilities Systems Upgrade
- b. Incorporate the Thermal Energy Plant Upgrade project into the Utilities Systems Upgrade project at the U. T. Medical Branch - Galveston
- c. Approve a total project cost of \$12,700,000
- d. Appropriate funds of \$2,500,000 from Hospital Revenues and \$6,200,000 from Utility Revenues which, when combined with previous appropriations of \$2,000,000 from Permanent University Fund Bond Proceeds and \$2,000,000 from Hospital Revenues, establishes the total project funding of \$12,700,000.

BACKGROUND INFORMATION

The U. T. Medical Branch - Galveston Chilled Water Distribution and Generation Phase I project and the Thermal Energy Plant Upgrade project are included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget, with preliminary project costs of \$8,700,000 and \$4,000,000, respectively. Project funding for the Thermal

Energy Plant Upgrade project was previously appropriated with \$2,000,000 from Permanent University Fund Bond Proceeds and \$2,000,000 from Hospital Revenues. Since both projects address energy conservation and energy savings throughout the campus, the U. T. Medical Branch - Galveston requests that these two repair and renovation projects be combined for improved design and construction coordination and administration. Project delivery will be provided through the design-build process, which will allow a coordinated program of energy-related initiatives to be delivered in construction stages during Fiscal Years 1999 to 2002.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the U. T. Medical Branch - Galveston Chilled Water Distribution and Generation Phase I project as the Utilities Systems Upgrade project at a total project cost of \$12,700,000, with funding of \$4,500,000 from Hospital Revenues, \$6,200,000 from Utility Revenues, and \$2,000,000 from Permanent University Fund Bond Proceeds. In addition, the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget will be amended to delete the U. T. Medical Branch - Galveston Thermal Energy Plant Upgrade project.

7. U. T. Medical Branch - Galveston - Graves Building and Mary Moody Northen Pavilion Remodel (Project No. 601-942): Appropriation of Funds and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Executive Vice Chancellor for Health Affairs, and President Stobo that the U. T. Board of Regents appropriate funds in the amount of \$12,500,000 from Revenue Financing System Bond Proceeds for the Graves Building and Mary Moody Northen Pavilion Remodel at the U. T. Medical Branch - Galveston.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master

Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 25, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's cost including any costs 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 U. T. Board of Regents relating to the Financing System
- c. U. T. Medical Branch - Galveston, 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 \$12,500,000
- 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 August 14, 1997 meeting of the U. T. Board of Regents, funding was appropriated in the aggregate amount of \$245,320,137 for renovation projects initiated in the FY 1998 and FY 1999 Capital Budget. At the time, the Graves Building and Mary Moody Northen Pavilion Remodel project at the U. T. Medical Branch - Galveston was not included in the list of projects, even though it is a renovation project, because of a question concerning the historical significance of the Graves

Building. However, the planned interior work will not impact the exterior of the building and review by the Texas Historical Commission did not find renovation of the interior of the fourth floor to be architecturally or historically significant for further review.

This project will renovate the fourth floor of the Graves Building and all five floors of the Mary Moody Northen Pavilion to provide needed space, including offices and research laboratories for the Department of Internal Medicine.

The Graves Building and Mary Moody Northen Pavilion Remodel project is included in the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget at a preliminary project cost of \$12,500,000 with funding from Revenue Financing System Bond Proceeds.

The debt is to be repaid from patient care revenues. Borrowing costs are assumed at 4.5% during the interim construction period and 6.5% for the fixed rate, twenty-year bonds. The estimated duration of the renovation is fifteen months. Upon completion of the renovation, the debt will be converted to fixed-rate bonds with an estimated annual debt service of \$1,134,455. The debt service coverage and the ratio of annual debt service to operating expenses are reflected on Page FPCC - 26. The debt service coverage for FY 1998 is less than 1.0 coverage as a result of a \$10,000,000 budget adjustment for FY 1998 made when the Texas Department of Criminal Justice's managed care contract with the Medical Branch was renewed at reduced capitation rates.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

I, the undersigned Assistant Vice Chancellor for Finance of The University of Texas System, a U. T. System Representative under the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, (the "Master Resolution"), adopted by the U. T. Board of Regents ("Board") on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, do hereby execute this certificate for the benefit of the Board pursuant to Section 5(a)(ii) of the Master Resolution in connection with the authorization by the Board to issue "Parity Debt" to finance the remodeling cost of the Graves Building and Mary Moody Northen Pavilion at U. T. Medical Branch - Galveston, and do certify that to the best of my knowledge, the Board is in compliance with and not in default of any terms, provisions, and conditions in the Master Resolution, the First Supplemental Resolution Establishing the Revenue Financing System Commercial Paper Program, ("First Supplemental"), the Second Supplemental Resolution, the Third Supplemental Resolution, the Fourth Supplemental Resolution, the Fifth Supplemental Resolution, and the Sixth Supplemental Resolution.

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

**The University of Texas Medical Branch at Galveston
Graves Building and Mary Moody Northen Pavilion Remodel**

Campus Level: U.T. Medical Branch at Galveston (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	132.4	121.3	169.7	175.6	146.7	147.5	147.8	149.2	152.9
Total Current Unrestricted Revenues	796.8	876.3	902.9	907.2	911.4	920.6	929.8	939.0	948.4
Total Current Unrestricted Expenditures	(816.1)	(837.4)	(908.9)	(935.1)	(899.2)	(898.9)	(905.0)	(911.2)	(917.6)
Net Revenues	(19.3)	38.9	(6.0)	(27.9)	12.2	21.7	24.8	27.8	30.8
Debt Service	(1.3)	(2.3)	(3.2)	(6.4)	(8.4)	(9.4)	(9.4)	(9.1)	(5.6)
Other Mand. Transfers	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Mand. Transfers	(1.3)	(2.4)	(3.2)	(6.4)	(8.4)	(9.4)	(9.4)	(9.1)	(5.6)
Non-Mand. Transfers	0.2	3.8	13.4	(6.6)	(15.0)	(23.0)	(23.0)	(23.0)	(23.0)
Adjustments	9.3	8.1	1.7	12.0	12.0	11.0	9.0	8.0	8.0
Net Inc./(Dec.) for Year	(11.1)	48.4	5.9	(28.9)	0.8	0.3	1.4	3.7	10.2
End. Fund Balance	121.3	169.7	175.6	146.7	147.5	147.8	149.2	152.9	163.1
Debt Service Coverage	(14.8)	16.9	(1.9)	(4.4)	1.5	2.3	2.6	3.1	5.5
Debt Service to Operating Expenses	0.2%	0.3%	0.4%	0.7%	0.9%	1.0%	1.0%	1.0%	0.6%

U.T. System (\$ in millions)

	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,526.4	3,767.5	3,900.3	4,037.1	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,316.9)	(3,436.1)	(3,657.7)	(3,807.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	209.5	331.4	242.6	229.6	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(3.3)	(17.1)	(1.8)	(1.3)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(48.8)	(58.0)	(73.5)	(86.2)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.0	4.4	3.2	2.6	2.0	2.2	2.0	2.1	2.1
Debt Service to Operating Expenses	1.5%	1.7%	2.0%	2.2%	2.9%	3.2%	3.4%	3.3%	3.1%

8. U. T. Medical Branch - Galveston - TDCJ Hospital Cladding Restoration: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project and Appropriation of Funds.--

RECOMMENDATION

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

- a. Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the TDCJ Hospital Cladding Restoration project at the U. T. Medical Branch - Galveston
- b. Appropriate funds of \$6,560,000 from Hospital and Contract Revenues for total project funding.

BACKGROUND INFORMATION

The Texas Department of Criminal Justice (TDCJ) Hospital is an eight-story building of approximately 234,000 square feet located on the U. T. Medical Branch - Galveston campus. It was completed and occupied in June 1983, and the U. T. Medical Branch - Galveston maintains the facility under contract with the Texas Department of Criminal Justice.

The building has a structural concrete frame, and the exterior is clad in brick. Within the last several years, structural distress of a four-foot band of brick cladding has been observed at floor levels two through eight, and a recently completed study by U. T. Medical Branch - Galveston verified that corrective action is necessary for the band of brick cladding. It is recommended that this project be procured immediately to correct these deficiencies and to stop further deterioration of the building facade. Specific action will include replacing the band of masonry cladding at each floor level and adding structural elements to support the brick

cladding. While construction scaffolding is in place, further inspection of the masonry cladding between floors will be undertaken to verify that there are no additional cladding problems. A contingency amount has been included in the total project cost for additional corrective action, if found necessary.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the TDCJ Hospital Cladding Restoration project at the U. T. Medical Branch - Galveston at a total project cost of \$6,560,000, with funding from Hospital and Contract Revenues.

9. U. T. Health Science Center - Houston - Nursing and Biomedical Sciences Building Phase I: Request for Project Redesignation and Approval of Preliminary Project Cost.--

RECOMMENDATION

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

- a. Redesignate the Nursing and Biomedical Sciences Building Phase I at the U. T. Health Science Center - Houston as the Nursing and Biomedical Sciences Building
- b. Approve a preliminary project cost of \$60,000,000, with funding of \$10,000,000 from Gifts and Grants, \$17,500,000 from Tuition Revenue Bonds, and \$32,500,000 from Revenue Financing System Bond Proceeds.

BACKGROUND INFORMATION

The Nursing and Biomedical Sciences Building Phase I project at the U. T. Health Science Center - Houston is included in the FY 1998-2003 Capital Improvement Program and FY 1998 and

FY 1999 Capital Budget at a preliminary project cost of \$27,500,000, with funding of \$10,000,000 from Gifts and Grants and \$17,500,000 from Tuition Revenue Bonds. In addition, a Biomedical Sciences Building Phase II project was listed as a possible future project in the FY 1998-2003 Capital Improvement Program, with an estimated cost of \$32,500,000. Further evaluation of these two projects indicates that combining Phase I and Phase II of the Biomedical Sciences Building project would result in numerous benefits including cost savings, avoidance of disruption and multiple moves for various departments, and completion of the facility in a more timely manner.

The U. T. Health Science Center - Houston has been successful in raising \$6,500,000 in Gift funds since the adoption of the FY 1998-2003 Capital Improvement Program on August 14, 1997, and anticipates reaching the \$10,000,000 goal shortly. The combination of these Gift funds with \$17,500,000 in Tuition Revenue Bonds will position the U. T. Health Science Center - Houston to fund the Phase I portion of the Biomedical Sciences Building at a cost of \$27,500,000. The additional cost of \$32,000,000 for the Phase II portion of the project will be funded through Revenue Financing System Bond Proceeds to be predominantly financed by a phased increase in designated tuition as endorsed by U. T. Health Science Center - Houston students. The U. T. System Office of Finance has determined that the U. T. Health Science Center - Houston has the capacity to service this debt.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the Nursing and Biomedical Sciences Building Phase I project as the Nursing and Biomedical Sciences Building at a preliminary project cost of \$60,000,000, with funding of \$10,000,000 from Gifts and Grants, \$17,500,000 from Tuition Revenue Bonds, and \$32,500,000 from Revenue Financing System Bond Proceeds.

10. U. T. Health Science Center - San Antonio - Cancer Research Building: Request to Amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to Include Project and Authorize a Private Fund-Raising Campaign (Regents' Rules and Regulations, Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44).--

RECOMMENDATION

The Chancellor concurs in the recommendation of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Health Affairs, and President Howe that the U. T. Board of Regents amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Cancer Research Building project at the U. T. Health Science Center - San Antonio at a preliminary project cost of \$18,000,000 to \$24,000,000 with funding of up to \$18,000,000 from Gifts and Grants and up to \$6,000,000 from Permanent University Fund (PUF) Bond Proceeds.

In addition, the Chancellor concurs in the recommendation of the Executive Vice Chancellor for Health Affairs, the Vice Chancellor for Development and External Relations, and President Howe that the U. T. Board of Regents authorize a private fund-raising campaign, pursuant to the Regents' Rules and Regulations, Part One, Chapter VII, Section 2, Subsection 2.4, Subdivision 2.44, relating to private fund-raising campaigns, by the Cancer Therapy and Research Center (CTRC), a private, nonprofit corporation chartered in 1972 to provide the citizens of San Antonio and the surrounding service area with the highest quality cancer treatment, research, and education, and the U. T. Health Science Center - San Antonio. The purpose of the campaign is to obtain at least a two to one match of private gifts and grants to provide at least \$12,000,000 to match the requested \$6,000,000 PUF allocation to fund the Cancer Research Building.

BACKGROUND INFORMATION

The new Cancer Research Building will be approximately 100,000 gross square feet and will provide facilities and sophisticated informatics networking necessary to support an

interdisciplinary Breast Cancer Research and Treatment Center; a Drug Development Program oriented on clinical trials of novel anticancer agents; new programs in Gastrointestinal, Genitourinary, and Lung Cancer research; a Gene Discovery Program; investigations in Prevention and Populations Sciences; and a Biostatistics Center which will support these and other cancer research efforts. These programs and the building which houses them will support the San Antonio Cancer Institute, a National Cancer Institute designated comprehensive cancer center, which is a collaborative effort of the U. T. Health Science Center - San Antonio and the Cancer Therapy and Research Center.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to include the Cancer Research Building at a preliminary project cost of \$18,000,000 to \$24,000,000 with a request for up to \$6,000,000 from PUF Bond Proceeds to be matched at least two to one with private support anticipated as a result of the joint fund-raising effort.

11. U. T. Health Science Center - San Antonio - Parking Garage (Project No. 402-931): Request for Project Redesignation; Approval of Design Development Plans; Approval of Total Project Cost; Appropriation of Funds and Authorization of Expenditure; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Parity Debt 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, the Executive Vice Chancellor for Health Affairs, and President Howe that the U. T. Board of Regents:

- a. Redesignate the Parking Garage at the U. T. Health Science Center - San Antonio as the Parking Garages and Bookstore
- b. Approve design development plans for the Parking Garages and Bookstore at the U. T. Health Science Center - San Antonio

- c. Approve a total project cost of \$9,250,000
- d. Appropriate funds and authorize expenditure of \$7,190,000 from Revenue Financing System Bond Proceeds, \$1,000,000 from Parking Fee Balances, \$560,000 from Auxiliary Enterprise Balances, and \$500,000 from Proceeds from Land Sale for total project funding.

The Chancellor also concurs in the recommendation of the Executive Vice Chancellor for Business Affairs that, in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System (the "Master Resolution") adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and August 14, 1997, and upon delivery of the Certificate of an Authorized Representative as set out on Page FPCC - 35, the U. T. Board of Regents resolve that:

- a. Parity Debt shall be issued to pay the project's cost including any costs 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 U. T. Board of Regents relating to the Financing System
- c. U. T. Health Science Center - San Antonio, 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 \$7,190,000
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

BACKGROUND INFORMATION

The FY 1998-2003 Capital Improvement Program, adopted by the U. T. Board of Regents on August 14, 1997, contained a project for a Parking Garage at the U. T. Health Science Center - San Antonio at a cost of \$7,500,000 to be funded with \$6,500,000 from Revenue Financing System Bond Proceeds and \$1,000,000 from Parking Fee Balances. Projections indicate that the number of faculty, staff, and students on campus in Fall 2000 will approach 8,500 individuals, yet the existing number of parking spaces is only 3,967.

The original U. T. Health Science Center - San Antonio Parking Garage concept was to plan a single 1,000-car parking garage to help alleviate the parking shortfall. Following a site selection study of various options by the project architect and the parking consultant, it was recommended that two smaller garages with a total capacity of 750 cars be designed, one at each end of the main building complex. This approach provides a better distribution of the parking spaces, and the smaller garages do not obscure the public view of the existing main campus buildings. Constructing these two parking garages, along with reconfiguring and restriping existing parking lots, will achieve the goal of providing a net gain of approximately 1,000 spaces. There is also a need for additional surface parking for approximately 400 cars to be located adjacent to the new Allied Health/Research Building and the McDermott Clinical Science Building.

The U. T. Health Science Center - San Antonio has been evaluating the facilities and operations of the existing bookstore for some time. The current facility splits service between two levels creating a situation that is inefficient to operate and inaccessible to its customers. It is recommended that a new bookstore of 10,000 square feet be located in the new parking garage adjacent to the School of Nursing at the end of the main building complex. The new bookstore will provide opportunities for additional revenue as well as improve store operations and customer service.

With the additional scope of the bookstore and the second garage, the revised total project cost is \$9,250,000. The revised funding will be \$7,190,000 from Revenue Financing System Bond Proceeds, \$1,000,000 in Parking Fee Balances, \$560,000 in Auxiliary Enterprise Balances, and \$500,000 from Proceeds from Land Sale. The Revenue Financing System debt is to be repaid from revenues generated by the Parking and Traffic Division and the Bookstore. Borrowing costs are

assumed at 4.5% during the interim construction period and 6.5% for the fixed rate, twenty-year bonds. Upon completion of the project, the debt will be converted to fixed rate bonds requiring estimated annual debt service of \$652,538. The debt service coverage and the ratio of annual debt service to operating expenses are reflected on Pages FPCC 36 - 37.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget to redesignate the U. T. Health Science Center - San Antonio Parking Garage project as the Parking Garages and Bookstore, with funding of \$7,190,000 from Revenue Financing System Bond Proceeds, \$1,000,000 from Parking Fee Balances, \$560,000 from Auxiliary Enterprise Balances, and \$500,000 from Proceeds from Land Sale to establish the total project cost of \$9,250,000.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 10 day of July, 1998

Pamela K. Clayton
Assistant Vice Chancellor for Finance

**The University of Texas Health Science Center at San Antonio
Parking Garages and Bookstore**

Project Level (Actual \$)	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Parking Facilities Beg Fund Bal	26,695	107,769	49,108	33,777	13,627	17,989	35,689	20,651	75,092
Permit and Citation Revenues	523,518	518,202	596,510	610,850	514,250	514,250	832,500	832,500	832,500
Garages Revenues				0	0	0	205,000	291,480	291,480
Total Parking Facility Revenues	523,518	518,202	596,510	610,850	514,250	514,250	1,037,500	1,123,980	1,123,980
Parking Facility Expenses	(296,937)	(311,857)	(337,975)	(354,000)	(357,000)	(357,000)	(366,000)	(366,000)	(375,000)
Lot Rental		(29,549)	(62,748)	(72,000)	(72,000)	(72,000)	0	0	0
Transfers for Capital Needs	(145,507)	(235,458)	(211,118)	(205,000)	(40,000)	(44,000)	(44,000)	(51,000)	(51,000)
Transfers from Bookstore					40,000	300,000	10,000	0	0
Funds Available for Debt Service	81,074	(58,661)	(15,331)	(20,150)	85,250	341,250	637,500	706,980	697,980
Debt Service	0	0	0	0	(80,888)	(323,550)	(652,538)	(652,538)	(652,538)
Change in Fund Balance	81,074	(58,661)	(15,331)	(20,150)	4,363	17,700	(15,038)	54,442	45,442
Ending Fund Balance	107,769	49,108	33,777	13,627	17,989	35,689	20,651	75,092	120,534
Debt Service Coverage	n.a.	n.a.	n.a.	n.a.	1.1	1.1	1.0	1.1	1.1

Campus Level: (\$ in millions)	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Beg. Fund Balance	46.2	48.9	61.3	62.1	56.7	55.0	53.4	52.5	56
Total Current Unrestricted Revenues	196.9	212.2	212.9	218.3	224.8	231.5	238.8	246.0	253
Total Current Unrestricted Expenditures	(190.6)	(197.1)	(206.3)	(212.5)	(218.6)	(224.9)	(231.4)	(238.0)	(245)
Net Revenues	6.2	15.1	6.7	5.8	6.1	6.6	7.5	8.0	9
Debt Service	(1.2)	(1.4)	(1.5)	(1.5)	(1.8)	(2.0)	(2.2)	(2.2)	(2)
Other Mand. Transfers	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0)
Total Mand. Transfers	(1.2)	(1.4)	(1.6)	(1.5)	(1.9)	(2.0)	(2.3)	(2.3)	(2)
Non-Mand. Transfers	(1.8)	0.9	(1.1)	(2.1)	(1.2)	(1.2)	(1.2)	(1.3)	(1)
Adjustments	(0.6)	(2.1)	(3.2)	(7.6)	(4.9)	(4.9)	(4.9)	(0.7)	(1)
Net Inc./(Dec.) for Year	2.6	12.5	0.8	(5.4)	(1.7)	(1.5)	(1.0)	3.8	5
End Fund Balance	48.9	61.3	62.1	56.7	55.0	53.4	52.5	56.2	61
Debt Service Coverage	5.0	10.4	4.2	3.9	3.3	3.2	3.3	3.5	4.6
Debt Service to Operating Expenses	0.6%	0.7%	0.8%	0.7%	0.8%	0.9%	1.0%	0.9%	0.7%

**The University of Texas Health Science Center at San Antonio
Parking Garages and Bookstore**

U.T. System (\$ in millions)	Actual			Forecast					
	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Available Revenues	3,526.4	3,767.5	3,900.3	4,037.1	4,078.6	4,197.8	4,277.2	4,374.6	4,435.0
Operating Expenses	(3,316.9)	(3,436.1)	(3,657.7)	(3,807.5)	(3,849.9)	(3,917.0)	(4,003.0)	(4,080.6)	(4,164.4)
Net Available for Debt Serv.	209.5	331.4	242.6	229.6	228.7	280.8	274.2	294.0	270.6
Other Mandatory Transfers	(3.3)	(17.1)	(1.8)	(1.3)	(2.2)	(3.0)	(3.9)	(3.8)	(3.8)
Debt Service	(48.8)	(58.0)	(73.5)	(86.2)	(111.1)	(127.6)	(136.4)	(134.2)	(125.8)
Debt Service Coverage	4.0	4.4	3.2	2.6	2.0	2.2	2.0	2.1	2.1
Debt Service to Operating Expenses	1.5%	1.7%	2.0%	2.2%	2.9%	3.2%	3.4%	3.3%	3.1%

12. U. T. M.D. Anderson Cancer Center - Consolidated Office Facility: Request for Project Redesignation and Approval of Preliminary Project Cost.--

RECOMMENDATION

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

- a. Redesignate the Consolidated Office Facility at U. T. M.D. Anderson Cancer Center as the Faculty Center
- b. Approve a preliminary project cost of \$45,400,000 with funding of \$25,000,000 from Revenue Financing System Bond Proceeds and \$20,400,000 from Local Educational and General Funds or Designated Funds.

BACKGROUND INFORMATION

The U. T. M.D. Anderson Cancer Center currently leases 54,500 square feet of office space, primarily in the Fannin/Holcombe Building, and the lease on this space expires in 1999. Rather than renewing this lease, feasibility studies indicate that U. T. M.D. Anderson Cancer Center can realize economic advantages by constructing an office facility. The current FY 1998-2003 Capital Improvement Program and the FY 1998 and FY 1999 Capital Budget approved at the August 14, 1997, meeting of the Board of Regents includes a project entitled Consolidated Office Facility with a preliminary project cost of \$25,000,000 for this purpose.

Recent studies indicate that available space at U. T. M.D. Anderson Cancer Center is insufficient to meet projected growth. Economic and space models were developed by U. T. M.D. Anderson Cancer Center that integrate space requirements within the existing facilities in the main complex along with the proposed office facility. The recommended option consists

of construction of a facility of approximately 325,000 square feet rather than 225,000 previously approved. The proposed facility will include the needed office space to relocate most of the faculty and some administrative employees currently in the leased space and a small area offering a nominal food service. This option results in the lowest overall cost for providing needed space.

Approval of this item will amend the FY 1998-2003 Capital Improvement Program and FY 1998 and FY 1999 Capital Budget to redesignate the Consolidated Office Facility as the Faculty Center at U. T. M.D. Anderson Cancer Center at a preliminary project cost of \$45,400,000 with \$25,000,000 to be funded from Revenue Financing System Bond Proceeds and \$20,400,000 to be funded from Local Educational and General Funds or Designated Funds.

Executive Session of the Board

BOARD OF REGENTS
EXECUTIVE SESSION

Pursuant to Texas Government Code
Chapter 551, Sections 551.071, 551.072, 551.073, and 551.074

Date: August 12, 1998

Time: 2:30 p.m.

Place: Second Floor Conference Room, Ashbel Smith Hall,
201 West Seventh Street, Austin, Texas

1. Consultation with Attorney Regarding Pending and/or Contemplated Litigation or Settlement Offers - Section 551.071

U. T. Health Science Center - San Antonio:
Proposed Settlement of Medical Liability
Claim

2. Deliberations Regarding the Purchase, Exchange, Lease or Value of Real Property - Section 551.072

U. T. Austin: Request for Authorization to Purchase Real Property Described as Lot 1 Garcia Subdivision and Located at 4611 Guadalupe Street in Austin, Travis County, Texas; Authorization to Submit the Purchase to the Texas Higher Education Coordinating Board for Approval; and Authorization to Execute All Documents Related Thereto

3. Negotiated Contracts for Prospective Gifts or Donations - Section 551.073

- a. U. T. System: Deliberation of Recommendations of Kaludis Consulting Group Regarding Negotiated Contract for Prospective Gift/Donation Related to the Lower Rio Grande Valley Regional Academic Health Center

- b. U. T. Austin: Deliberation Regarding Negotiated Contract for a Prospective Gift/Donation for the College of Fine Arts

- 4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees - Section 551.074

U. T. System: Consideration of Personnel Aspects of the Operating Budgets for the Fiscal Year Ending August 31, 1999, Including Auxiliary Enterprises, Grants and Contracts, Designated Funds, Restricted Current Funds, and Medical and Dental Services, Research and Development Plans and Authorization for the Chancellor to Make Editorial Corrections Therein