

Meeting No. 1,140

THE MINUTES OF THE BOARD OF REGENTS
OF
THE UNIVERSITY OF TEXAS SYSTEM

Pages 1 - 26

October 2, 2015

Austin, Texas

MEETING NO. 1,140

FRIDAY, OCTOBER 2, 2015.--The members of the Board of Regents of The University of Texas System convened in a special called meeting via telephone conference call at 1:34 p.m. on Friday, October 2, 2015, in the Board Room, Ninth Floor, Ashbel Smith Hall, 201 West Seventh Street, Austin, Texas, with the following participation:

ATTENDANCE.--

Present

Chairman Foster
Vice Chairman Hicks
Vice Chairman Hildebrand
Regent Aliseda
Regent Beck
Regent Cranberg
Regent Hall
Regent Pejovich
Regent Tucker
Regent Drake, Student Regent, nonvoting

In accordance with a notice being duly posted with the Secretary of State and there being a quorum present, Chairman Foster called the meeting to order in open session.

RECESS TO EXECUTIVE SESSION.--At 1:34 p.m., the Board recessed to convene in Executive Session pursuant to *Texas Government Code* Sections 551.071 and 551.074 to consider the matters listed on the Executive Session agenda.

RECONVENE IN OPEN SESSION.--At 2:05 p.m., the Board reconvened in open session for action on matters discussed in Executive Session and to consider the following agenda items.

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

No action was taken on this item.

2a. U. T. System Board of Regents: Discussion with Counsel on pending legal issues

No action was taken on this item.

2b. U. T. Southwestern Medical Center: Discussion regarding legal issues associated with the proposed formation of a health care network with Texas Health Resources

See Item 1 below for related action taken in Open Session.

AGENDA ITEMS

1. U. T. Southwestern Medical Center: Approval regarding the formation of a health care network with Texas Health Resources to be known as Southwestern Health Resources

President Podolsky outlined the formation of a proposed health care network for The University of Texas Southwestern Medical Center with Texas Health Resources (THR) using the organizational structure chart on Page 5. He noted that the formation of this health care network, to be known as Southwestern Health Resources, will enable U. T. Southwestern Medical Center to enhance its abilities to serve its multiple public purposes and specifically to deliver high quality health care. Regent Cranberg then made the following motion:

Motion by Regent Cranberg

I move that the U. T. System Board of Regents authorize the President of U. T. Southwestern Medical Center

- a. to take steps necessary for U. T. Southwestern Medical Center to work with Texas Health Resources on the formation of a health care network and related entities, including without limitation, a physician network and a hospital network, to care for patients across the care continuum; and
- b. to execute all documents, instruments, and other agreements, and to take all further actions deemed necessary to carry out the purpose and intent of the foregoing action, following review and approval by the Chancellor, the Executive Vice Chancellor for Health Affairs, and the Vice Chancellor and General Counsel.

I further move that the Board authorize the allocation and expenditure of funds in support of this authorization in an amount not to exceed \$63 million over three years from an unrestricted source of funds, with the understanding that no State-appropriated funds or tuition revenues will be used.

I also move that the Board authorize the President of U. T. Southwestern Medical Center to take all action necessary for the name of this new clinical network to be known as “Southwestern Health Resources” and to effect and to create designations for components of the network consistent with the convention authorized for the overall network name.

Finally, I move the Board confirm the U. T. Southwestern Medical Center’s determinations:

1. that the formation of this health care network supports the public mission of and serves public purposes appropriate to the functions of U. T. Southwestern Medical Center by enhancing U. T. Southwestern’s ability to fulfill the following in furtherance of the U. T. Southwestern Mission:
 - a) As society increasingly demands integration of care from prevention through primary care to the most complex medical needs and across the entire care continuum including ambulatory care, inpatient acute-care, and post-acute care, this network allows U. T. Southwestern to align with an organization having complementary delivery capabilities, ensuring that U. T. Southwestern is able to meet those needs without unnecessarily duplicating resources;
 - b) The delivery of high quality, cost-effective, and efficient care can no longer be achieved with existing compartmentalized processes. Changing payment models and delivery reforms, including narrow networks, accountable care organizations, pay-for-performance programs and regulatory changes, will have a significant impact on reimbursement and revenue. Therefore, creation of a clinically aligned continuum of patient-centered, cost-effective, evidenced-based care enhances the availability and array of quality health care choices. The success of this transaction may also be measured by increasing informed patient choice and by the improved access to such evidence-based care and to the aggregated data that supports such care;
 - c) The network will make it possible for U. T. Southwestern to maintain financial sustainability and continue to focus on investments in all its missions that cannot be supported by State funds or cannot be adequately supported by State funds alone;

- d) The network will also inherently enhance U. T. Southwestern's ability to provide its students, residents, and other trainees with expanded opportunities for exposure to all dimensions of care delivery necessary in the aggregate to care for an entire community; and
 - e) Access made possible through the network to a much larger patient base also inherently empowers U. T. Southwestern investigators to perform patient-oriented clinical research, translational research, and health services research.
2. that the separate contributions by Texas Health Resources and the projected revenue and other benefits to be received as consideration by U. T. Southwestern Medical Center and the public are adequate; and
 3. that the proposal by U. T. Southwestern Medical Center will have sufficient safeguards and controls in place to ensure the public purposes will continue to be met on an ongoing basis.

The motion was seconded by Vice Chairman Hicks and passed unanimously.

UTSW-THR Affiliation & Network Organizational Structure

Southwestern Health Resources

Hospital Network

Physician Network

Academic Affiliation

Non-JOC Hospitals

Texas Health Hospitals (24)

JOC Hospitals

William P. Clements Jr. University Hospital

Zale-Lipshy University Hospital

Texas Health Presbyterian Hospital Dallas

UT Southwestern Faculty Physicians
~1,600 Physicians

Texas Health Physician Group
~600 Physicians

UT Southwestern Affiliated & THR Affiliated Independent Physicians

Population Health Research Center

Undergraduate, Graduate, and Continuing Medical Education, Simulation Center, Allied Health Programs

Population Health Services Company

Minutes - 5

October 2, 2015 Meeting of the U. T. System Board of Regents

2. U. T. System: Approval of policies and procedures related to future tuition and fee rates at U. T. System institutions

Deputy Chancellor Daniel presented a framework for reviewing tuition and fees at The University of Texas System institutions as set forth on Pages 9 - 25. Following the discussion set forth below, the Board approved Chancellor McRaven's recommended action as follows concerning policies and procedures related to the approval of future tuition and fee rates at U. T. System institutions.

Regent Cranberg and Regent Hall voted against the recommendation.

Chancellor McRaven's Recommended Action

Campuses are authorized to proceed with consultative processes that engage students who are representative of the student body to develop recommendations for increases in tuition and required fees for Fiscal Years 2017 and 2018. Such recommendations may include an increase of 2% per year to account for cost escalation as well as reasonable and prudent additional increases that address issues of greatest institutional priority. All requests must be well justified and must address issues of student affordability. Requests are expected to be considered by the Board at its February (2016) meeting.

Referring to Slide 16 on Page 24 of Dr. Daniel's presentation, Regent Cranberg expressed concern with the proposal that sets an expectation for student tuition to rise above the level of inflation, and he said an increase in tuition should be a last resort. He suggested the first resort should be in cost economies and savings to benefit students through moderated tuition, and the second resort should be in other sources of revenues. He said it is essential to track total income from all sources, which should include investment income. As Chairman of the University Lands Advisory Board, he sees the likelihood of continued growth in income from oil, and he believes the distribution rate from the Permanent University Fund (PUF) is too low. He suggested a 0.1% increase in the distribution rate could offset any tuition increases. He also asked if tuition could be cut, noting that the lowest income families benefit from tuition waivers, while those from middle income families (>\$80,000) do not. Regent Cranberg asked that the focus be to target an overall growth after inflation per Full-Time Student Equivalent (FTSE) without the Board making the determination of which priority of each U. T. System institution is meritorious, rather leaving that task to each President. Finally, Regent Cranberg suggested targeting growth of total income from all sources per FTSE based on the needs of the institution and looking at student tuition as a last resort, not an expected resort of incremental revenues.

Dr. Daniel addressed Regent Cranberg's concerns stating that he also believes increasing tuition should be a last resort and commenting on ways necessary to sustain institutional excellence. He commented that the level of growth and the needs for each campus varies, and he spoke about the availability and restrictions

of gift funds. Regent Cranberg spoke about a recent ranking of the high value of an education offered by The University of Texas at Austin, and they discussed the effectiveness of PUF and Available University Funds (AUF) on the institution. Vice Chairman Hicks noted that he serves on The University of Texas Investment Management Company (UTIMCO) Board of Directors, and the return on investments is under 5%, which he believes limits the amount of PUF dollars that go to U. T. Austin at least in the short term. He cautioned that the institutional presidents need to be given the authority and the ability to use cost of living increases in tuition as one way to create and sustain the kind of universities that are desired. Further, Vice Chairman Hicks encouraged the Board to positively consider the recommendation made.

Regent Pejovich commented on the proposed action as an expectation of an increase in cost escalation rather than an action statement to incentivize cost containment and student affordability. She said that the four- and six-year graduation rate information should be carefully considered when reviewing requests for cost increase proposals, and trends and forecasts for the future must be considered in tuition cost increases. Dr. Daniel summarized Regent Pejovich's comments by saying that graduation rates, efficiency, and affordability are important considerations when reviewing tuition and fee increases.

Regent Tucker commented on the need for a consistent approach to facilitate the Board's decisions, and she emphasized the need to consider graduation rates, student affordability, and all resources. She spoke about wanting the U. T. System institutions to create the best experience for students in a way that is affordable and produces outcomes. She spoke about competition for scarce resources and the need to make investments to enhance the student experience by attracting faculty, getting better curricula, and helping with retention of students. She also commented on the need to invest in infrastructure and technologies. Noting several ongoing key personnel searches (president, provost, financial officer, and deans) across the U. T. System institutions, Regent Tucker said the best candidates will be attracted by demonstrating that investments in the U. T. System institutions are being made to accomplish the mission.

Regent Hall expressed concern about the tuition framework for a variety of reasons, including the low interest rate and low inflation environment. Noting that some members of the Board aspire to teach many more students than is currently occurring and to lower costs, he suggested this proposal is a rebuke that lowering costs is not possible because it is not being considered. He observed that the concept that the Board turns over goal-setting for the institutions to the U. T. System Administration without articulating the Board's view of where it expects the institutions to go is a mistake. He said he would not turn over these decisions to the Chancellor or to the U. T. System without more specific input from the Board.

Dr. Daniel addressed efforts underway to educate the maximum number of qualified Texas students in the most efficient way using innovations such as blended learning, online learning, and different course delivery methods. He spoke about the proposal

concerning tuition and fees as a pragmatic challenge to moving ahead. Looking ahead to the next couple of years, he said an inflation factor of 2% is prudent and reasonable.

In reference to Slide 11 on Page 19, Vice Chairman Hildebrand asked how the U. T. System institutions rank nationally, and Dr. Daniel referred to a peer group comparison showing low rates of per student funding per year to operate the U. T. System institutions as compared to peer institutions. Vice Chairman Hildebrand spoke of the need to benchmark and index the U. T. System against the appropriate peer group and to do what is necessary to be efficient and effective. Referring to Regent Hall's comment, he recommended that the Board needs to insert direction on what it expects the institutions to achieve with regard to goals and growth, and he suggested a bottom-up driven budget and top-down directives.

Chancellor McRaven agreed the Board has at times provided that direction, and he referred to the goals on affordability, accessibility, and graduation rates in the U. T. System Framework for Advancing Excellence. He said the recommendation before the Board recognizes the low level of State revenues, that tuition has been flat for some time, and that the U. T. System is at the bottom of its peer group with regard to funding. He said he wants the efforts to be result-driven.

Chairman Foster agreed that the increases in costs should not burden the students, and cost controls by the U. T. System institutions must be implemented. He suggested that cost increases be offset and said the Board has to be diligent and prudent with PUF distributions, but also to distribute all that can reasonably be distributed when there is excess money available. He said that overall tuition should not continue to increase. He noted there is a cost to maintaining a first-class institution. He pointed to the PUF and to the Legislature and reiterated the obligation to provide an affordable education to the State's students. Regent Hall added that he has found that legislators do not understand why the U. T. System is not doing more to contain costs, and he noted the constituents are not pleased. Chairman Foster challenged the Board to look at where cost increases can be offset, if not from tuition, to provide an institution of the first class. Regent Hall suggested the Board may look at its own "Manhattan Project" to determine new ways of delivering education.

Regent Cranberg noted a concern with comparing the U. T. System to its peer group since there are no peer institutions in the Southwest with the same aspirations and costs. He noted cost controls are important to taxpayers.

Chancellor McRaven discussed the need for direction to move forward. He said investing in blended and online courses allows the U. T. System to educate more Texas students than ever before. Costs must be managed as best as possible, but revenue sources limit the ability to hire quality faculty needed and to address infrastructure concerns. He offered that the U. T. System must improve its ability to provide the revenue needed for a quality education for the State's students. Chairman Foster agreed with Chancellor McRaven that more efficient ways be explored to deliver a quality education.

Framework for Reviewing Tuition and Fees

Steve Leslie, Ph.D., Executive Vice Chancellor for Academic Affairs
Raymond Greenberg, M.D., Executive Vice Chancellor for Health Affairs
David Daniel, Ph.D., Deputy Chancellor

U. T. System Board of Regents' Meeting
October 2, 2015



Framework for Reviewing Tuition and Fees (Bottom Line Up Front)

- Cost escalation caused by inflation continues to challenge the ability of U. T. System institutions to recruit and retain talent, and to fund necessary infrastructure and technology requirements.
- Each campus is different, with varying priorities, circumstances, and need for additional revenues to accomplish institutional goals.
- Chancellor's recommendation: Move forward now with campus consultative processes for proposed tuition increases to be considered later: (1) a cost-escalation adjustment of +2% per year, and (2) reasonable and prudent additional increases necessary to meet highest institutional priorities, considering unique circumstances of each campus. Requests must address student affordability. Regents to consider requests at February 2016 meeting.

Minutes - 10

October 2, 2015 Meeting of the U. T. System Board of Regents



Framework for Reviewing Tuition and Fees (Affordability)

- U. T. System institutions place a high priority on maintaining student affordability, especially for low and mid-range income levels



Full-Time Resident Students Receiving a Grant, Scholarship or Tuition Waiver, AY 2013

	Family Income	Average Tuition & Fees	Average Net Tuition & Fees	% Tuition & Fees Covered by G/S/T	% FT Resident Undergrads Receiving Financial Aid
Flagship Institution	All Income Levels	\$9,790	-\$423	104%	46%
	\$0 - \$40,000	\$9,790	-\$3,912	140%	--
	\$40,001 - \$60,000	\$9,790	\$6	100%	--
	\$60,001 - \$80,000	\$9,790	\$2,828	71%	--
	\$80,001+	\$9,790	\$5,245	46%	--
Emerging Research Universities	All Income Levels	\$8,196	-\$190	102%	69%
	\$0 - \$40,000	\$8,114	-\$1,207	115%	--
	\$40,001 - \$60,000	\$8,208	\$312	96%	--
	\$60,001 - \$80,000	\$8,315	\$2,029	76%	--
	\$80,001+	\$8,476	\$2,425	71%	--
Comprehensive Universities	All Income Levels	\$5,530	-\$2,558	146%	77%
	\$0 - \$40,000	\$5,469	-\$3,456	163%	--
	\$40,001 - \$60,000	\$5,594	-\$1,489	127%	--
	\$60,001 - \$80,000	\$5,683	\$872	85%	--
	\$80,001+	\$5,895	\$1,763	70%	--

October 2, 2015 Meeting of the U. T. System Board of Regents

Minutes - 12



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

www.UTSYSTEM.EDU

Framework for Reviewing Tuition and Fees (cont.)

- Cost escalation driven by inflation poses significant challenges.
- The Consumer Price Index (CPI) and Higher Education Price Index (HEPI) are increasing about 2% per year:

Year	CPI	HEPI
2013	1.5 %	1.6 %
2014	1.6 %	3.1 %
2015 (est. *)	2.2 %	2.1 %

*Projected from first 8 months of 2015

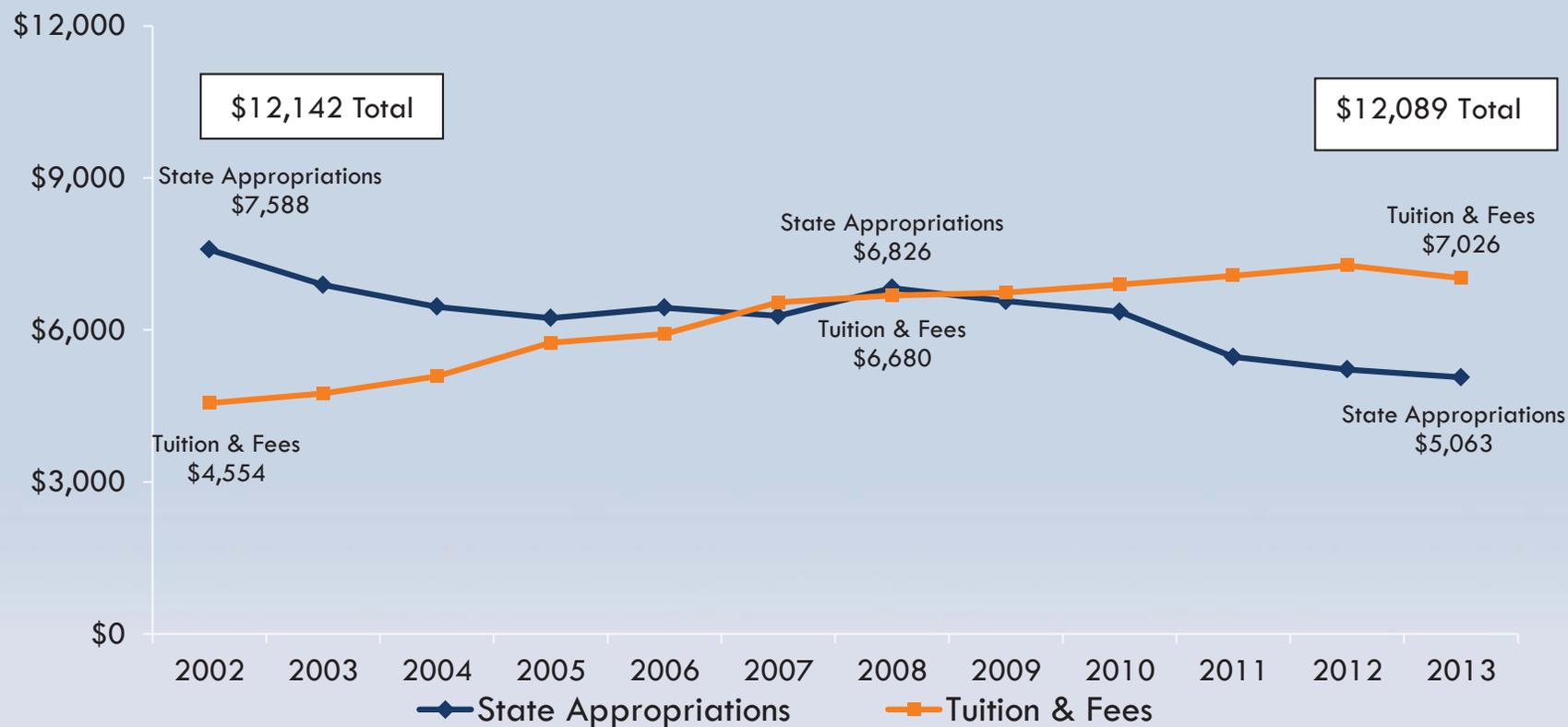


Framework for Reviewing Tuition and Fees (cont.)

- Decline in per-student state appropriations for academic institutions has been (almost) offset by increases in tuition and fees
- To avoid falling behind, it is necessary as a minimum for tuition/fees to keep pace with cost escalation caused by inflation.
- Many of our metropolitan areas are booming, creating even greater salary pressure in recruiting/retaining talent in high-skill areas.



Revenue Trends per FTE Student U. T. Academic Institutions (in 2013 dollars)



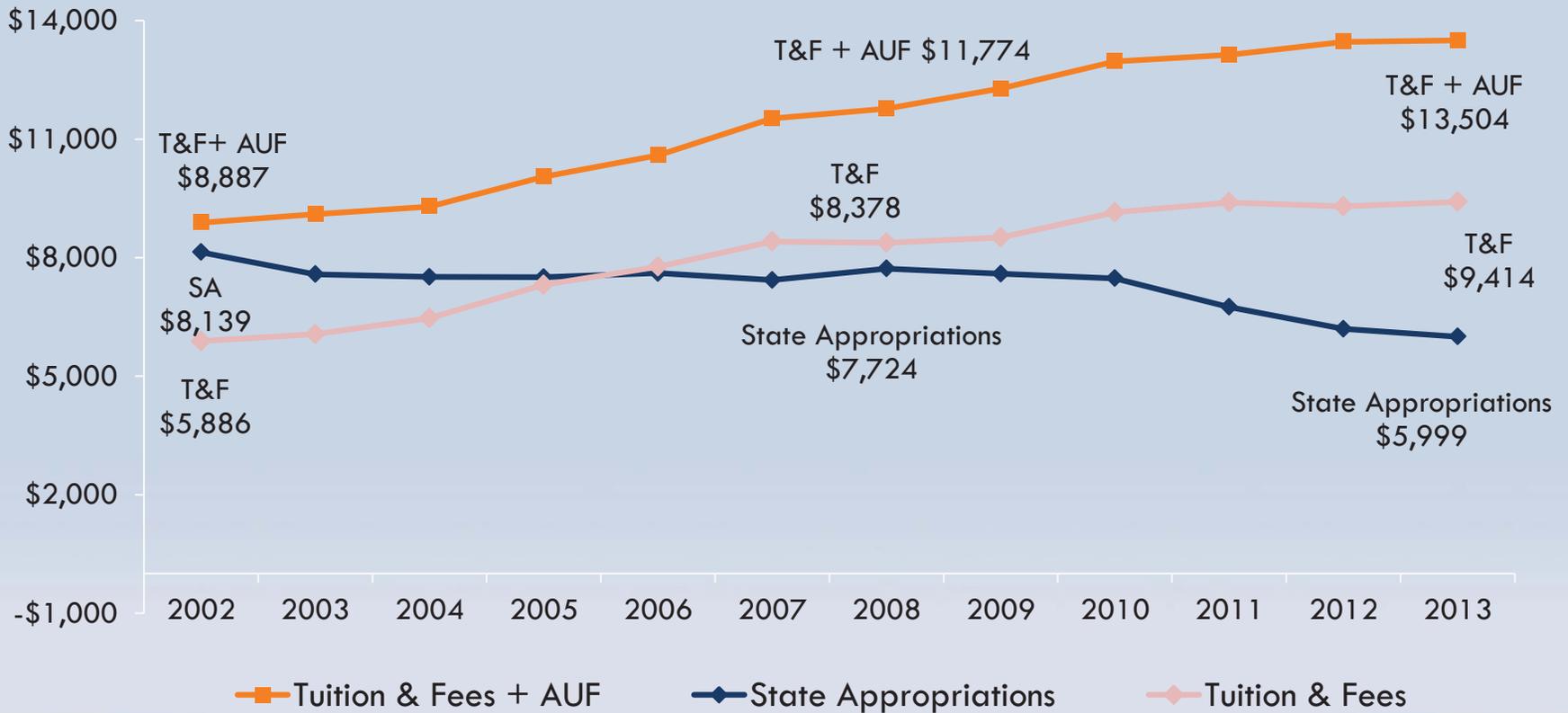
Minutes - 15

October 2, 2015 Meeting of the U. T. System Board of Regents



Revenue Trends per FTE Student Flagship Institution (in 2013 dollars)

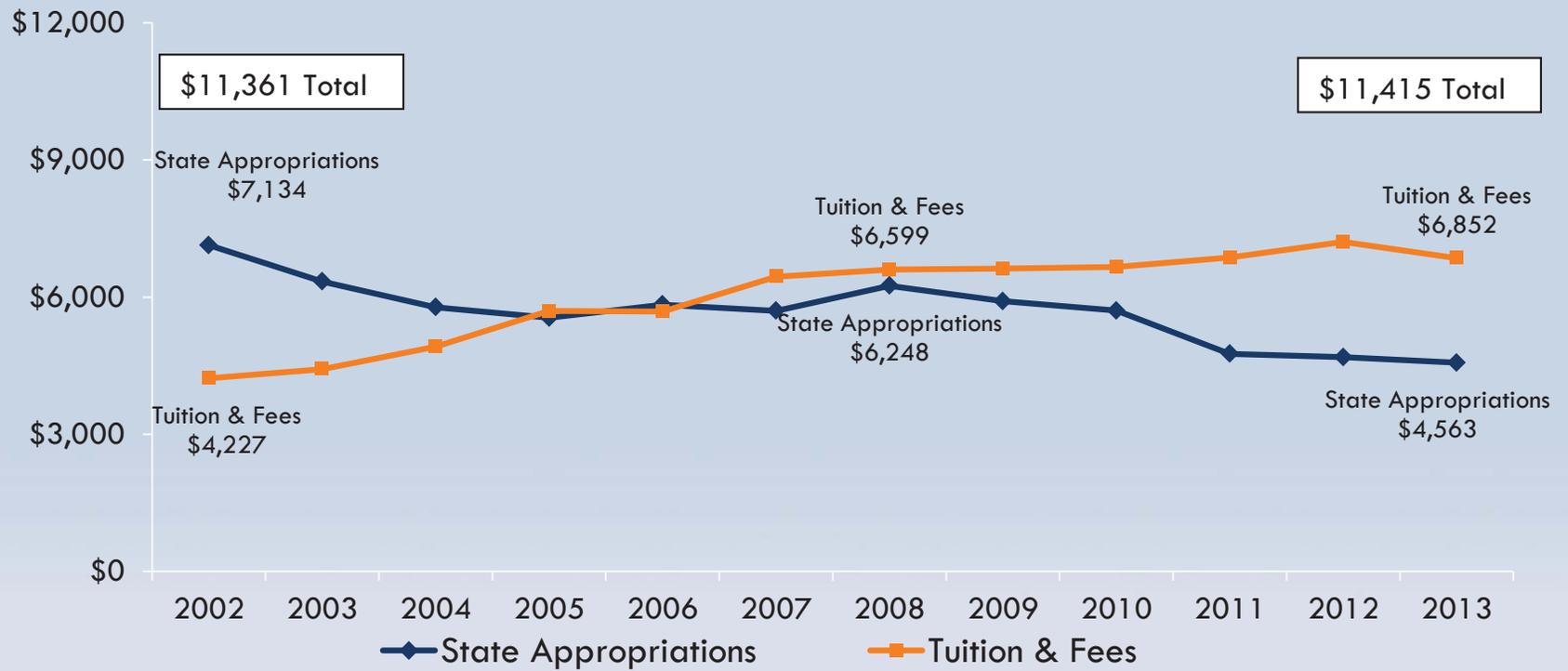
Minutes - 16



October 2, 2015 Meeting of the U. T. System Board of Regents



Revenue Trends per FTE Student Emerging Research Universities (2013 dollars)



Minutes - 17

October 2, 2015 Meeting of the U. T. System Board of Regents



Framework for Reviewing Tuition and Fees (cont.)

- In terms of total operating income, U. T. Austin is last among its peer institutions (see next chart).
- U. T. Austin would need an additional \$5,000 per FTE student per year to rise to the middle of the pack
- U. T. Austin would need an additional \$9,000 per FTE student per year year to equal the average of the four highest ranked institutions (UC Berkeley, UCLA, Univ. Virginia, and UNC-Chapel Hill)



Total State Appropriations and Tuition Revenue per FTE Student FY 2014

	Total State Appropriations and Tuition Revenue	Total FTE Students Fall 2012	Total State Appropriations and Tuition Revenue per FTE Student	Rank
University of North Carolina at Chapel Hill	\$863,170,085	26,266	\$32,863	1
University of Michigan-Ann Arbor	\$1,198,459,000	41,895	\$28,606	2
University of California-Los Angeles	\$1,068,098,000	39,334	\$27,155	3
University of California-Berkeley	\$947,464,000	34,971	\$27,093	4
University of Washington-Seattle Campus	\$1,026,217,496	39,594	\$25,919	5
University of Minnesota-Twin Cities	\$1,111,309,483	43,822	\$25,360	6
University of California-San Diego	\$689,409,000	27,715	\$24,875	7
Purdue University-Main Campus	\$891,627,961	37,383	\$23,851	8
Ohio State University-Main Campus	\$1,187,814,563	51,847	\$22,910	9
University of Illinois at Urbana-Champaign	\$936,239,076	42,133	\$22,221	10
Indiana University-Bloomington	\$858,078,060	39,084	\$21,955	11
Michigan State University	\$942,372,878	44,946	\$20,967	12
University of Wisconsin-Madison	\$802,123,181	39,655	\$20,228	13
The University of Texas at Austin	\$787,449,015	49,628	\$15,867	14
The University of Texas at Austin (w/ AUF)*	\$986,734,015	49,628	\$19,883	14

October 2, 2015 Meeting of the U. T. System Board of Regents

Minutes - 19

Source: Integrated Postsecondary Education Data System (IPEDS) Data; Notes: Tuition revenue = tuition and fee revenue (minus discounts and allowances); Full Time equivalent includes undergraduate, graduate, and first professional students based on fall headcounts. Peer institutions are baseline peers that resulted from last U. T. System and institutional peer setting process in 2012.

*Note: The U. T. System Available University Fund (AUF) Report was used to determine the AUF distribution for U. T. Austin. This figure was then added onto U. T. Austin's state appropriations and tuition revenue amounts that were reported in IPEDS. U. T. Austin's ranking with AUF funding remains unchanged.

Framework for Reviewing Tuition and Fees (Other Factors to Consider)

- Quality: More than \$50 million in new Net Tuition Revenue, generated as a result of the Fall 2012/2013 tuition increases and offsets, were invested in additional student success initiatives.
- Efficiency: At most U. T. System academic institutions, administrative costs as a percent of expenses decreased or remained relatively flat between 2012-2014.
- Transparency: U. T. System institutions continue unprecedented efforts to involve students, faculty and other campus constituents in development of Tuition and Fees recommendations.



Health Institutions

- U. T. Health Institutions have tuition rates that are typically among the lowest tuition rates for health institutions in the U.S.
- Five-year plans for tuition increases have been developed in February 2014 and were used previously for guiding tuition increases
- Primary goals was to take uncertainty out of future tuition rates for students/families
- Secondary goals were to help institutions plan more effectively
- Innovations in pricing strategy and educational delivery were encouraged, with affordability of programs a major point of emphasis
- Engagement and feedback from students and other constituents were required



Health Institutions (Cont.)

Strategic Plan Adoption:

- Presented to the Regents at May, 2014 Board meeting.
- First year increases were approved, and for dental programs, a two-year initiative was approved.
- Second year increases were approved at May, 2015, Board meeting.
- The second year increases adhered to the original plan with a few minor adjustments.
- The third- and fourth- year adjustments would be brought to the February, 2016, Board meeting for consideration

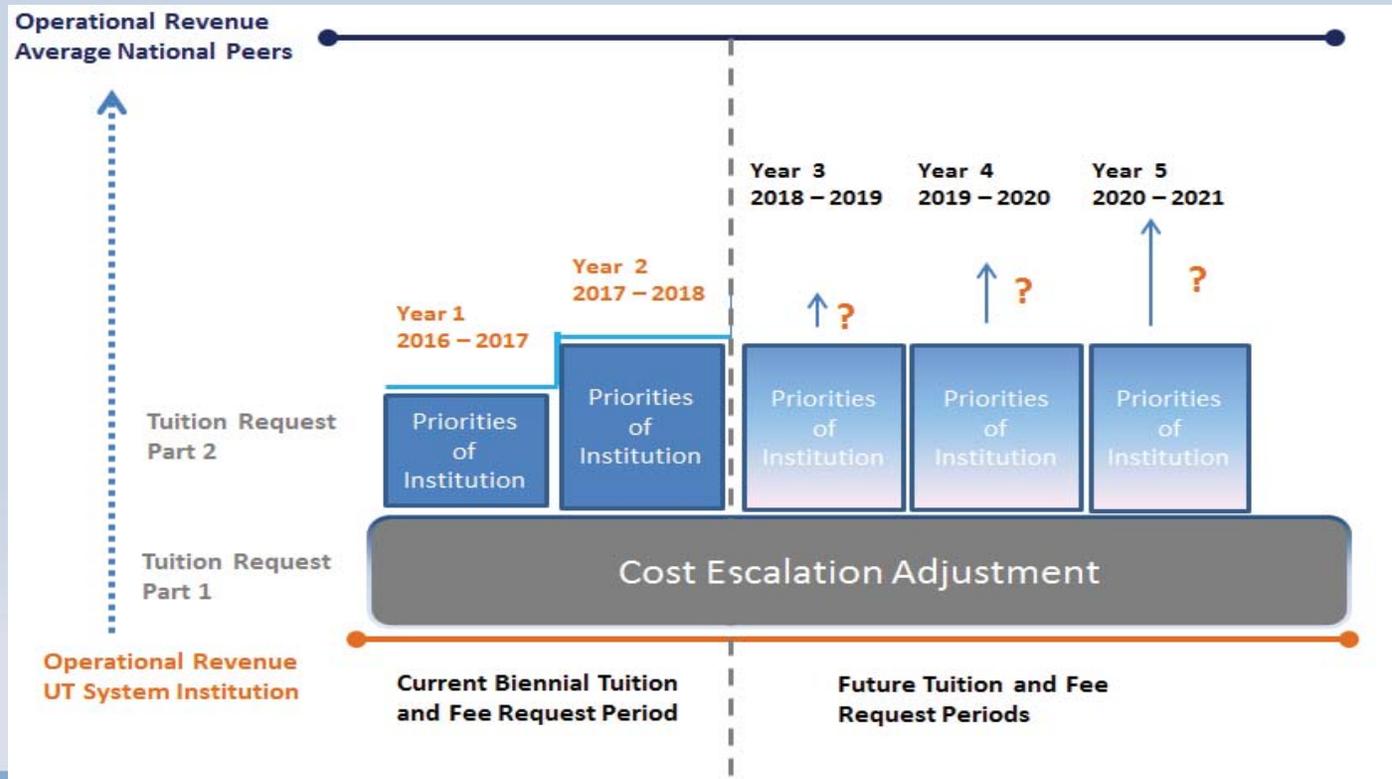


Framework for Reviewing Tuition and Fees

- It is important to have clear and reliable parameters that guide decision-making about tuition and fee proposals.
- Progress is best sustained with thoughtful long-range planning, clear setting of key goals and priorities, predictable revenues and costs, and excellent leadership that guides implementation of plans that ensure institutional progress and improved student success.



Framework for Reviewing Tuition and Fees (Recommendations)



Chancellor McRaven's Recommended Action by the Board of Regents :

Campuses are authorized to proceed with consultative processes that engage students who are representative of the student body to develop recommendations for increases in tuition and required fees for FY2017 and FY2018. Such recommendations may include an increase of 2% per year to account for cost escalation as well as reasonable and prudent additional increases that address issues of greatest institutional priority. All requests must be well justified and must address issues of student affordability. Requests are expected to be considered by the Board at its February meeting.



ADJOURNMENT.--At 3:14 p.m., there being no further business, the meeting was adjourned.

/s/ Tina E. Montemayor
Assistant Secretary to the Board of Regents

November 4, 2015