

Meeting No. 888

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

Pages 1 - 270

November 9, 1995

Arlington, Texas

TABLE OF CONTENTS
 THE MINUTES OF THE BOARD OF REGENTS
 OF
 THE UNIVERSITY OF TEXAS SYSTEM
 NOVEMBER 9, 1995
 ARLINGTON, TEXAS

MEETING NO. 888

	<u>Page No.</u>
I. Attendance	1
II. Welcome by Dr. Robert E. Witt, President of The University of Texas at Arlington	1
III. U. T. Board of Regents: Approval of Minutes of Regular Meeting Held on August 10, 1995	2
IV. Remarks by The Honorable Roberto R. Alonzo, State Representative, District 104, Related to Hispanics and Higher Education in the North Texas Region	2
V. SPECIAL ITEMS	3
U. T. BOARD OF REGENTS	
1. Regents' <u>Rules and Regulations</u> : Amend- ments to Part One, Chapters I (Board of Regents) and II (Administration) and Part Two, Chapter I (General) to Implement Changes in the Processing of Private Gifts	3
2. Approval of a Resolution Determining Method of Sale of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996A and Series 1996B; Designation of Lehman Brothers, New York, New York, as the Senior Managing Underwriter for Such Bonds; and Specification of Projects to be Financed or Refinanced with Bond Pro- ceeds	9
VI. REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES	18
A. REPORT OF EXECUTIVE COMMITTEE	18
U. T. SYSTEM	
Approval of Executive Committee Letters 95-23 Through 95-26 and 96-1 Through 96-2 Via the Chancellor's Docket Process	18
B. REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE	19
U. T. SYSTEM	
1. Approval of <u>Chancellor's Docket No. 83</u> (Catalog Change)	19

U. T. BOARD OF REGENTS

2. Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995, in an Aggregate Principal Amount of \$26,000,000, and Approval of the Official Statement and Official Notice of Sale; Authorization for the Competitive Sale of the Bonds as Specified in the Resolution; Appointment of Vinson & Elkins L.L.P., Austin, Texas, as Bond Counsel and Rafael Quintanilla, Jr., Austin, Texas, as Special Counsel to the Board; Appointment of Texas Treasury, Austin, Texas, as Paying Agent; and Authorization for Officers of U. T. System to Complete All Transactions 20

PERMANENT UNIVERSITY FUND

3. University Lands: Adoption of New Rate and Damage Schedule on Permanent University Fund Lands Effective January 1, 1996 132

U. T. SYSTEM

4. Additional Appropriation from the Available University Fund to U. T. Austin 140
5. Authorization to Renew the Comprehensive Crime Policy with National Union Fire Insurance Company, Pittsburgh, Pennsylvania, Effective November 1, 1995 Through November 1, 1996 140
6. Adoption of a System-wide Comprehensive Property Protection Plan and Authorization to Acquire Catastrophic Property Insurance with Arkwright Mutual Insurance Company, Waltham, Massachusetts, Effective November 9, 1995 140
7. Approval of Amendments to the Policy for Filing Financial Disclosure Statements Required by Chapter 572, Texas Government Code 141
8. Approval of the System-wide Internal Audit Plan for Fiscal Year 1995-96 142
9. Approval to Rescind the Environmental Review Policy for Acquisitions of Real Estate and to Adopt a Replacement Policy 142

U. T. SYSTEM	
10. Authorization to Amend the Policy on Utilization of Historically Underutilized Business (HUB) Firms	147
11. Progress Report on the Historically Underutilized Business (HUB) Program for Fiscal Year 1995	152
C. REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE	153
U. T. BOARD OF REGENTS	
1. Regents' <u>Rules and Regulations</u> , Part One: Amendments to Chapter VI, Section 5, Subsection 5.12 (Participation in Student Government)	153
2. Regents' <u>Rules and Regulations</u> , Part One: Approval to Amend Chapter VII, Section 5 (Trust Foundations)	153
3. Regents' <u>Rules and Regulations</u> , Part One: Amendments to Chapter VIII, Section 4, Subsections 4.8 and 4.(10) (Institutions and Entities Composing the System)	154
4. Regents' <u>Rules and Regulations</u> , Part Two: Approval of Amendments to Chapter I, Section 9, Subsection 9.3 (Official Seal, Colors, Flag, Logo, and Mascot)	155
U. T. SYSTEM	
5. Adoption of a Policy on Fees for Continuing Education Courses	155
U. T. ARLINGTON, U. T. DALLAS, U. T. EL PASO, U. T. PAN AMERICAN, U. T. PERMIAN BASIN, AND U. T. TYLER	
6. Authorization to Waive Tuition for Senior Citizens Effective with the Spring Semester 1996 (Catalog Change)	156
U. T. DALLAS, U. T. PERMIAN BASIN, AND U. T. TYLER	
7. Authorization to Charge Reduced Tuition Rates for Students Residing in States within 100 Miles of the Respective Institutions Effective with the Spring Semester 1996 and Approval for the Executive Vice Chancellor for Academic Affairs to Forward the Proposal to the Coordinating Board (Catalog Change)	157
U. T. EL PASO	
8. Request for Authorization to Establish a Doctor of Philosophy Degree in Biological Sciences and to Submit	

	the Proposed Program to the Coordinating Board for Approval (Catalog Change) (Withdrawn)	157
	U. T. PAN AMERICAN	
9.	Establishment of a Master of Education Degree with a Major in Special Education and Authorization to Submit the Proposal to the Coordinating Board for Approval (Catalog Change)	158
	U. T. SAN ANTONIO	
10.	Approval to Divide the Division of Art and Architecture into (a) the Division of Visual Arts and (b) the Division of Architecture and Interior Design and to Submit the Proposal to the Coordinating Board for Approval (Catalog Change)	158
11.	Authorization to Establish a Master of Arts Degree in Political Science and to Submit the Proposal to the Coordinating Board for Approval (Catalog Change)	159
12.	Establishment of a Master of Science Degree in Sociology and Authorization to Submit the Program to the Coordinating Board for Approval (Catalog Change)	160
D.	REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE	161
	U. T. SOUTHWESTERN MEDICAL CENTER - DALLAS, U. T. MEDICAL BRANCH - GALVESTON, U. T. HEALTH SCIENCE CENTER - HOUSTON, U. T. HEALTH SCIENCE CENTER - SAN ANTONIO, U. T.M.D. ANDERSON CANCER CENTER, AND U. T. HEALTH CENTER - TYLER	
	Approval of Revisions to Appendices A and B of the Standard Format for Bylaws of the Medical Service, Research and Development Plan/Physician Referral Service (MSRDP/PRS) Effective January 1, 1996	161
E.	REPORT AND RECOMMENDATIONS OF THE FACILITIES PLANNING AND CONSTRUCTION COMMITTEE	165
	U. T. AUSTIN	
1.	Renovation of Gregory Gymnasium (Project No. 102-817): Authorization to Increase Total Project Cost; Additional Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity	165

U. T. AUSTIN

2. McDonald Observatory - Additional Staff Housing: Authorization for Project; Preparation of Final Plans, Bidding, and Award of Contracts with Management by U. T. Austin Administration; Submission of Project to Coordinating Board; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity 167
3. Music Building: Approval to Name the Building Rainey Hall [Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1 (Naming of Buildings)] 169
4. University Interscholastic League Building (Project No. 102-803): Approval of Preliminary Plans; Authorization to Prepare Final Plans and Specifications; Submission of the Project to the Coordinating Board; Advertisement for Bids; Executive Committee Award of Contracts; and Additional Appropriation Therefor 169

U. T. DALLAS

5. Authorization for Additional Negotiation of Ground Lease with Southwestern Legal Foundation, a Nonprofit Corporation, Richardson, Texas, and Approval for the Executive Vice Chancellor for Business Affairs to Execute Lease 170

U. T. EL PASO

6. Approval of Various Capital Renewal Projects; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity 172

U. T. SAN ANTONIO

7. Small Animal Building Expansion and Renovation (Project No. 401-728): Approval to Amend the FY 1996-2001 Capital Improvement Program to Include Project; Submission of the Project to the Coordinating Board; Authorization for Final Plans, Bidding, and Award of Contracts; and Appropriation Therefor 174

F.	REPORT AND RECOMMENDATIONS OF THE ASSET MANAGEMENT COMMITTEE	175
1.	Permanent University Fund	
1.	Summary Investment Report at August 31, 1995	176
2.	Report on Investments for the Fiscal Year Ended August 31, 1995	177
2.	Long Term Fund	
	Summary Investment Report at August 31, 1995	178
3.	Gifts, Trusts and Estates	
	U. T. SYSTEM	
1.	Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for September 1, 1995 Through October 5, 1995	179
2.	Approval of Amendments to the Gifts Policy Guidelines	184
	U. T. DALLAS	
3.	Excellence in Education Founda- tion Endowment and the Callier Center for Communication Disorders Endowment: Substitu- tion of Minute Order to Clarify August 11, 1994, Establishment of Endowments and Rescission of Designation of Use of Income from the Excellence in Education Foundation Endowment for the Cecil and Ida Green Center Endowment	204
4.	Amendment of Purpose of Cecil and Ida Green Center for the Study of Science and Society Endowment and Transfer of Funds to Establish the Green Chair in the Study of Science and Society and the Green Professor in the Study of Science and Society; Amendment of Purpose of Cecil H. and Ida M. Green Endowed Lecture Series; and Termination of the Cecil and Ida Green Center Endowment	205
4.	Intellectual Property Matters	
	U. T. MEDICAL BRANCH - GALVESTON	
	Approval of a Patent License Agreement with Chrysalis BioTechnology, Inc./dba Gal Tech Wound Therapies (Gal Tech),	

	Galveston, Texas; Acceptance of Stock in Gal Tech by U. T. Medical Branch - Galveston; and Authorization for Darrell H. Carney, Ph.D., to Accept Stock in and Serve on Board of Directors of Gal Tech	209
VII.	ITEMS FOR THE RECORD	231
	U. T. BOARD OF REGENTS	
	1. Appointment of Regent Lowell H. Lebermann, Jr. to Replace Regent Thomas O. Hicks as Regental Representative to the Texas Growth Fund Effective September 18, 1995	231
	U. T. SYSTEM	
	2. Report on Status of Degree Programs and Academic Organization Requests Approved by the U. T. Board of Regents and Submitted to the Texas Higher Education Coordinating Board for the Period September 1, 1994 Through August 31, 1995	231
	3. Report on Status of Administratively Approved Academic Program Changes for the Period September 1, 1994 Through August 31, 1995	234
	4. Report on Role and Mission Statements and Tables of Programs for Health Institutions	235
	U. T. AUSTIN	
	5. Report on Implementation of the Master of Science in the Commercialization of Science and Technology Degree	257
	U. T. M.D. ANDERSON CANCER CENTER	
	6. Appointment of Advisory Committee for the Selection of a Chief Administrative Officer (President)	258
VIII.	EXECUTIVE SESSION OF THE BOARD OF REGENTS	259
	U. T. BOARD OF REGENTS	
	1. Consultation with Attorneys Regarding Pending Litigation Related to the Termination of a Tenured Faculty Member at U. T. Health Science Center - Houston	259
	U. T. AUSTIN	
	2. Institute for Constructive Capitalism (IC ² Institute): Acceptance of Gift of Real Property Located at 2815 San Gabriel Street, Austin, Travis County, Texas, from the RGK Foundation, Austin, Texas	259

	U. T. SAN ANTONIO	
	3. Approval for Executive Vice Chancellor for Business Affairs to Execute All Documents Relating to Amendments to Ground Lease and Management Agreement for Chisholm Hall Dormitory and Recre- ation Center with Phase I Dormitory Part- nership (Century Development Corporation)	259
IX.	REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS	260
X.	REPORT OF SPECIAL COMMITTEES	261
	U. T. BOARD OF REGENTS	
	Special Committee on Minorities and Women: Report by Committee Chairman Holmes	261
XI.	SCHEDULED MEETING	270
XII.	ADJOURNMENT	270

MEETING NO. 888

THURSDAY, NOVEMBER 9, 1995.--The members of the Board of Regents of The University of Texas System convened in regular session at 10:00 a.m. on Thursday, November 9, 1995, in the San Saba Room on the Second Floor of the E. H. Hereford University Center at The University of Texas at Arlington, Arlington, Texas, with the following in attendance:

ATTENDANCE.--

<u>Present</u>	<u>Absent</u>
Chairman Rapoport, presiding	
Vice-Chairman Hicks	
Vice-Chairman Smiley	
Regent Deily	
Regent Evans	
Regent Holmes	
Regent Lebermann	
Regent Loeffler	
Regent Temple	

Executive Secretary Dilly

Chancellor Cunningham
Executive Vice Chancellor Duncan
Executive Vice Chancellor Mullins
Executive Vice Chancellor Burck

Chairman Rapoport announced a quorum present and called the meeting to order.

RECESS TO BRIEFING AND EXECUTIVE SESSIONS.--Chairman Rapoport announced that the Board would recess to convene a briefing session and Executive Session pursuant to Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074 to consider those matters listed on the Executive Session agenda.

RECONVENE.--At 1:20 p.m., the Board reconvened in open session in the Concho Room.

WELCOME BY DR. ROBERT E. WITT, PRESIDENT OF THE UNIVERSITY OF TEXAS AT ARLINGTON.--Chairman Rapoport stated that the Board was pleased to be hosted by The University of Texas at Arlington and expressed appreciation for the opportunity to participate in the 100th anniversary celebration of this important component of The University of Texas System. Chairman Rapoport noted that Dr. Robert E. Witt, President of U. T. Arlington, has done a remarkable job for this campus since his arrival a few short months ago. He pointed out that Dr. Witt's relationships with faculty, students, alumni, and the community are mutually cooperative and supportive and the Board could not be more grateful or appreciative of his efforts. Mr. Rapoport then called on Dr. Witt for any welcoming remarks on behalf of the host institution.

On behalf of the faculty, staff, and students of U. T. Arlington, President Witt welcomed the members of the Board and other guests to the campus.

U. T. BOARD OF REGENTS: APPROVAL OF MINUTES OF REGULAR MEETING HELD ON AUGUST 10, 1995.--Upon motion of Vice-Chairman Smiley, seconded by Regent Temple, the Minutes of the regular meeting of the Board of Regents of The University of Texas System held on August 10, 1995, in San Antonio, Texas, were approved as distributed by the Executive Secretary. The official copy of these Minutes is recorded in the Permanent Minutes, Volume XLII, Pages 2571 - 3226.

REMARKS BY THE HONORABLE ROBERTO R. ALONZO, STATE REPRESENTATIVE, DISTRICT 104, RELATED TO HISPANICS AND HIGHER EDUCATION IN THE NORTH TEXAS REGION.--Chairman Rapoport introduced The Honorable Roberto R. Alonzo, State Representative of District 104 in Dallas, who had requested time on the agenda to discuss important issues and concerns related to Hispanics and higher education in the North Texas region. Chairman Rapoport noted that Representative Alonzo has plans to initiate a North Texas Higher Education Initiative similar to the very successful South Texas Border Initiative.

Representative Alonzo thanked the members of the Board for the opportunity to address his concerns related to the accessibility and availability of higher educational opportunities for Hispanics in the North Texas region. He noted that the number of Hispanics in higher education in Texas is still dismal even after decades of reports, volumes of research studies, census statistics, and the gathering of data by numerous groups and organizations.

In order to address the higher educational needs of the Hispanic population, the trends of the past will have to shift. Curricular programs will have to change, admissions and testing standards will have to be more closely examined, institutions of higher education in North Texas will have to strengthen efforts to recruit and retain Hispanic faculty and students, more adequate sources and alternative types of financial aid resources will have to be made available and accessible to Hispanic students, and the demographics in the North Texas region will have to be more closely reexamined and coordinated with the higher educational goals of colleges and universities in the area. Mr. Alonzo stated that it was important to develop a comprehensive and viable plan that will effectively address the higher educational needs of all Hispanics in the North Texas region and noted that plans are currently underway to organize and implement a North Texas Higher Education Initiative comparable to the South Texas Border Initiative that was formed over three years ago.

Mr. Alonzo pointed out that in order to pull together the resources, talents, and expertise of key groups, civic leaders, and private individuals dedicated to the goal of improving educational opportunities for Hispanics in North Texas, the North Texas Initiative will be organized to serve as a clearinghouse of research, information and data gathering, and it will be charged with the responsibility of undertaking a major comprehensive study of the North Texas region's system of public higher education.

In closing, Representative Alonzo emphasized that the responsibility for improving accessibility and availability of higher education for all students should be a shared one, requiring a coordinated, sustained effort not only by policy makers, Boards of Regents, educators, and college students, but by everyone in the community at large.

At the conclusion of his remarks, Representative Alonzo distributed to the Board a document entitled "[The North Texas Initiative -- A Preliminary Prospectus for Recommendations on Mexican Americans and Higher Education in the North Texas Region](#)," a copy of which is on file in the Office of the Board of Regents.

On behalf of the Board, Chairman Rapoport thanked Mr. Alonzo for his very informative remarks.

SPECIAL ITEMS

1. U. T. Board of Regents - Regents' Rules and Regulations: Amendments to Part One, Chapters I (Board of Regents) and II (Administration) and Part Two, Chapter I (General) to Implement Changes in the Processing of Private Gifts.--Due to the reorganization of The University of Texas System Office of Asset Management and the need for some minor editorial amendments regarding the processing of private gifts, approval was given to amend the Regents' Rules and Regulations, Parts One and Two as set forth below:
 - a. Part One, Chapter I, Section 7, Subsection 7.19 (Duties of the Asset Management Committee) was amended to read as set forth below:
 - 7.191 Consider and make recommendations to the Board on all matters relating to the investment and investment properties of the Permanent University Fund and all other assets managed by the Office of Asset Management.
 - 7.192 Recommend to the Board appointments and dismissals of members of the Investment Advisory Committee and of investment consultants and advisors.
 - 7.193 Periodically report to the Board on the investment operations of The University of Texas System.
 - 7.194 Counsel with the Chancellor and recommend Board action with respect to any recommendations related to the appointment, promotion, and dismissal of such System officers as are responsible for managing the investments of the System or any component thereof.

- b. Part One, Chapter II, Section 7, Subsection 7.2 (Duties and Responsibilities of the Vice Chancellor for Asset Management) was amended to read as follows:

7.2 Duties and Responsibilities.

The Vice Chancellor for Asset Management has responsibility for the management of trust and endowment lands and noncampus lands held in the name of the Board of Regents including the investment and management of trusts, trust assets, endowments, the Permanent University Fund and such other funds as may be assigned in such a manner as to maximize the monies available for excellence in all activities of the System. The Vice Chancellor for Asset Management will coordinate and cooperate with the Executive Vice Chancellor for Business Affairs in bringing to the Board recommendations on those policy issues which impact upon the asset management aspects of the Permanent University Fund Lands and shall provide to the Board of Regents through the Executive Vice Chancellor for Business Affairs an independent report and assessment of the System's ability to finance prospective debt issues. In consultation with the Chancellor, the Vice Chancellor for Asset Management shall prepare recommendations and supporting information on his or her responsibilities for consideration by the appropriate standing committees of the Board and the Board of Regents. The Vice Chancellor for Asset Management will coordinate and cooperate with the Office of General Counsel in the development and management of the Intellectual Property resources of the System.

- c. Part One, Chapter II, Section 10, Subsection 10.2 (Duties and Responsibilities of the Vice Chancellor for Development and External Relations) was amended to read as set forth below:

10.2 Duties and Responsibilities.

The primary responsibilities of the Vice Chancellor for Development and External Relations include:

- 10.21 The provision of staff assistance to the Chancellor and the Executive Vice Chancellors in the execution of their responsibilities.
- 10.22 The development, organization, and administration of activities to obtain private sector funding for programs of the System.
- 10.23 The formal acceptance, following review and approval by the appropriate Executive Vice Chancellor, and the processing and administration (excluding investment management) of gifts as assigned which conform to all relevant laws and Board policies.

- 10.24 Recommending policies relating to acceptance, processing, and administration (excluding investment management) of gifts for all of the U. T. System's component institutions.
- 10.25 Making recommendations with respect to the acceptance of all proposed gifts and approval of all other actions related to the processing and administration of gifts managed by the Office of Development and External Relations, the terms of which do not conform to all relevant laws and Board policies.
- 10.26 Reporting to the Board on gifts processed and administered by the Office of Development and External Relations.
- 10.27 The organization and administration of programs for providing information to the public relating to the System and coordinating those programs with the public information programs of the component institutions.
- 10.28 Directing the administration of the System Office of Special Services.
- 10.29 Directing the administration of the System Office of Estates and Trusts.
- 10.2(10) To assist in the development, organization, and administration of programs and activities related to alumni of System component institutions in coordination with appropriate personnel of the component institutions.
- 10.2(11) Coordinating the policies and activities of the System and the component institutions related to internal and external foundations that provide support for the System and the component institutions.
- 10.2(12) The performance of such other duties and responsibilities as may be assigned by the Chancellor.

d. Part Two, Chapter I, Section 1 (Gifts to The University of Texas System) was amended to read as set forth below:

Sec. 1. Gifts to The University of Texas System.

- 1.1 The authority to accept gifts to the System or to any of the component institutions is vested in the Board.
- 1.2 Unless otherwise approved by the Board, all gifts to the System or any component institution shall be made in accordance with all relevant laws and Board policies, including but not limited to, the provisions of the U. T. System Gifts Policy Guidelines and approved institutional policies.

- 1.3 The authority to accept the following gifts which conform to all relevant laws and Board policies, including but not limited to, the U. T. System Gifts Policy Guidelines ("Gifts Policy Guidelines" or "Guidelines") and approved institutional policies is delegated to the chief administrative officer or his/her designee(s) specified in writing:
 - (a) unrestricted gifts and gifts restricted only as to a particular college/school/unit having a value of less than \$500,000 (in cash or in kind) that are not processed and/or administered by the Office of Development and External Relations and
 - (b) other restricted gifts having a value of less than \$50,000 (in cash or in kind) that are not managed by the Office of Development and External Relations.
- 1.4 The authority to accept all gifts of any value (either in cash or in kind) and to approve all other administrative actions related to gifts that are processed and/or administered by the Office of Development and External Relations (as set out in the Regents' Rules and Regulations) which conform to all relevant laws and Board policies, including but not limited to, the Gifts Policy Guidelines is delegated to the Vice Chancellor for Development and External Relations or his/her designee(s) specified in writing.
- 1.5 The Office of Development and External Relations shall submit a report to the Board summarizing acceptance and approval by the Office of Development and External Relations of gifts and other actions which conform to all relevant laws and Board policies, including but not limited to, the Gifts Policy Guidelines no less frequently than annually.
- 1.6 Recommendations regarding the acceptance of gifts or other actions which do not conform to all relevant laws and Board policies, including but not limited to the Guidelines, shall be made through the Chancellor to the Board via the Agenda after review by the appropriate offices of the terms of the gifts, the nature of the donated assets and/or the requested action.
- 1.7 Gifts to Establish Endowments.
 - 1.71 Endowments will be established with gifts which have been completed for tax purposes or with a combination of such gifts and pledges at a minimum funding level of \$10,000. Endowments may be established to fund scholarship programs and other educational activities as well as the endowed academic positions specified in Section 3 below.

- 1.72 Should the Board determine at any time that an endowment fund is not of sufficient size and has no foreseeable prospects of growing to sufficient size to justify the continuing costs of maintenance of such fund as a separate fund, then in the Board's discretion the principal of such fund may be expended for or otherwise devoted to the accomplishment, as near as may be possible, of the purposes for which the fund was established.
- 1.8 Except as provided in this Subsection, the preceding Subsections, or approved institutional policies, no member of the staff of any institution has the authority to accept gifts.
- 1.9 Neither the System nor any of its component institutions will administer a gift for the benefit of any designated individual unless the donor is exempt from federal income taxes as defined by the Commissioner of Internal Revenue.
- 1.(10) Acceptance of all gifts of real estate shall be subject to the U. T. System Gifts Policy Guidelines and the Environmental Review Policy for Acquisitions of Real Estate. The Coordinating Board, for purposes of state funding, may review and approve as an addition to an institution's educational and general building and facilities inventory any improved real property acquired by gift or lease-purchase as provided in Section 61.058(d) of the Texas Education Code.
- 1.(11) Conduct Related to Gifts.
- 1.(11)1 The Board will not serve as executor or administrator of an estate because of the potential for conflicts of interest and the scope of the required duties.
- 1.(11)2 U. T. System and component institution employees who agree to serve as executor or administrator of a donor's estate which benefits a U. T. System component institution are immediately to notify the Office of Estates and Trusts of their appointment. Upon notification, the employee will be furnished a statement advising of the potential for conflicts of interest and directing that all communications pertaining to the estate between the employee and any office of the U. T. System or the component institutions shall be in writing.

- 1.(11)3 U. T. System and component institution employees should not knowingly act as witnesses to wills in which the U. T. System or a component institution is named as a beneficiary because their doing so may jeopardize the receipt of the bequest.
- 1.(11)4 Because of the potential for conflicts of interest, U. T. System and component institution employees who agree to serve as trustee of a trust benefiting a U. T. System component institution are immediately to notify the Office of Estates and Trusts of their appointment. Upon notification, the employee will be furnished with a statement advising of the potential for conflicts of interest and directing that all communications pertaining to the trust between the employee and any office of the U. T. System or the component institutions shall be in writing.
- 1.(11)5 Members of the Board are frequently persons of wide-ranging business interests. Therefore, a prudent, independent decision process may result in real estate transactions with or involving firms or organizations with whom a member of the Board is affiliated. Affiliation shall be interpreted within this Section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. Unless the Board specifically finds that the transaction is in the best interest of the U. T. System or a component institution, no member of the Board or employee of the U. T. System may participate in any transaction with the U. T. System involving interests in real estate with which such Board member or employee is affiliated other than to convey a gift or bequest to the U. T. System.

See Page 184 related to amendments to the U. T. System Gifts Policy Guidelines.

2. U. T. Board of Regents: Approval of a Resolution Determining Method of Sale of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996A and Series 1996B; Designation of Lehman Brothers, New York, New York, as the Senior Managing Underwriter for Such Bonds; and Specification of Projects to be Financed or Refinanced with Bond Proceeds.--Chairman Rapoport reported that since the Material Supporting the Agenda was prepared an additional special item had been posted with the Secretary of State and that item was before the Board on yellow paper.

Chairman Rapoport noted that at the May 1995 meeting, the U. T. Board of Regents approved a series of actions designed to lead to the issuance of Board of Regents of The University of Texas System Revenue Financing System Bonds in an amount not to exceed \$232,000,000 for projects associated with the Capital Improvement Plan. At that time, it was contemplated that the bonds would be issued in several series to be determined by U. T. System officials and approved by the Executive Committee of the U. T. Board of Regents.

Without objection, the Resolution set forth on Pages 10 - 16 was approved to expedite the sale of Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1996A and Series 1996B.

In summary, the Resolution authorizes a negotiated bond sale, designates Lehman Brothers, New York, New York, as the senior managing underwriter for the bonds, and specifies those projects to be financed or refinanced with the proceeds of the bonds.

RESOLUTION MAKING DETERMINATIONS PURSUANT TO
THIRD SUPPLEMENTAL RESOLUTION AUTHORIZING THE
ISSUANCE OF REVENUE FINANCING SYSTEM BONDS

WHEREAS, on May 11, 1995, the Board of Regents (the "Board") of The University of Texas System (the "System") adopted the Third Supplemental Resolution to the Master Resolution (the "Third Supplemental Resolution") authorizing the issuance of one or more series of the Boards Revenue Financing System bonds in the maximum principal amount of \$232,000,000; and

WHEREAS, pursuant to the Third Supplemental Resolution, the Board Representative, as defined therein, on June 8, 1995 entered into a purchase agreement on behalf of the Board with Morgan Stanley & Co. Incorporated selling \$74,945,000 in principal amount of the bonds authorized by the Third Supplemental Resolution; and

WHEREAS, the Board Representative has recommended that two additional series of bonds, to be designated the Series 1996A and Series 1996B Bonds (collectively the "Bonds") be sold for the purposes set forth below as authorized by the Third Supplemental Resolution and has recommended that in order for the Bonds to be sold on the most advantageous terms to the Board and to allow the greatest control in achieving the Board's HUB goals, the Bonds be sold by negotiated sale; and

WHEREAS, the Third Supplemental Resolution delegates to the Executive Committee of the Board the responsibility for determining the method of sale of such subsequent series of bonds, either negotiated or competitive, the senior managing underwriter for such series of bonds, if to be sold by negotiated sale, and which projects will be financed or refinanced with the proceeds of such series of bonds; and

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

Section 1. This resolution constitutes an Executive Committee Resolution as defined in Section 3(d) of the Third Supplemental Resolution. The findings and determinations set forth in the Preamble of this Resolution are incorporated in and made a part of this Resolution. Except to the extent set forth herein the Third Supplemental Resolution is not amended, modified or repealed and remains in full force and effect. **Defined** terms used in this Resolution and not otherwise defined have the meaning given in the Third Supplemental Resolution.

Section 2. Based upon the recommendation of the Board Representative, it is hereby determined that two additional series of bonds, the Board's Revenue Financing System Bonds, Series 1996A and Series 1996B, should be sold pursuant to the Third Supplemental Resolution for the projects set forth in this Resolution and that such Bonds should be sold pursuant to negotiated sale in order to achieve the lowest overall borrowing cost and to allow the Board more control in achieving its stated goals with respect to contracts to be entered into with historically underutilized businesses. Lehman Brothers is hereby designated the senior managing underwriter for the Bonds.

Section 3. Attached as Exhibit A is a list of projects to be financed or refinanced with the proceeds of the Bonds. Part One of Exhibit A, Tuition Projects - Section 55.1714 Texas Education Code, is a list of projects to be acquired, purchased, constructed, improved, enlarged and equipped with the proceeds of the Series 1996A Bonds. Part Two of Exhibit A, Revenue Projects (Construction Completed) is a list of projects which have been financed with the proceeds of the Boards Revenue Financing System Commercial Paper Notes, Series A, and which are to be refinanced with the proceeds of the Series 1996B Bonds.

Section 4. Attached as Exhibit B to this Resolution is a chart showing the principal amount of Parity Debt, including the Series 1996A Bonds, issued for each Member pursuant to Section 55.1714 of the Texas Education Code and the additional Parity Debt which may be issued pursuant to such Section 55.1714.

Section 5. **The** Board hereby determines that it will have **sufficient** funds to meet the financial obligations of the 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 for whom the Series **1996A** and Series **1996B** Bonds are being issued possess the financial capacity to **satisfy** their respective Direct Obligations after taking into account the Series 1996A and Series 1996B Bonds.

Section 6. In furtherance of Section 3(e) of the Third Supplemental Resolution, the Board makes the following undertakings.

(a) Annual Reports. The Board shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year ending in or after 1996, financial information and operating data with respect to the Board of the general type included under the captions "Financial Management of the University of Texas System" and "General Description of the University of Texas System - Enrollment" in the final Official Statement relating to the Board's Revenue Financing System Bonds, Series **1995A**. Any financial statements so to be provided shall be (1) prepared in accordance with generally accepted accounting principles and (2) audited, if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the Board shall provide audited financial statements for the applicable Fiscal Year to each NRMSIR and any SID, when and if audited financial statements become available.

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

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

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

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

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

(c) Limitations, Disclaimers, and Amendments. The Board shall be obligated to observe and perform the covenants specified in this Section 6 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 the Third Supplemental Resolution 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 Resolution or the Third Supplemental Resolution for purposes of any other provision of this Resolution or the Third Supplemental Resolution.

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

The provisions of this Section may be amended by the Board from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Board, 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 Bond Resolution 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.

(d) Definitions. In addition to the definitions set out in the Third Supplemental Resolution, the following words and terms are defined as follows:

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

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 "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.

EXHIBIT A

PROJECTS TO BE FINANCED WITH PROCEEDS OF REVENUE FINANCING SYSTEM BONDS, SERIES 1996A 1996B

<u>Part I</u>			BOR PROJECT APPROVAL	COOR BD APPROVAL	BOR DEBT APPROVAL
<u>Tuition Projects - Section 55.1714 Texas Education Code</u>					
UT Brownsville	Science & Engineering Technology Bldg.	15,825,000	10193	10127194	5/95
UT San Antonio	Academic Building	11,900,000	2/91	1/21/94	6/94
UT Pan American	Engineering Building	11,154,000	6/92	7/14/94	10/94
UTHSC San Antonio	Allied/Public Health Research Bldg.	11,127,000	2/94	1/27/95	5/95
UT El Paso	Completion of Liberal Arts & Science Bldg	355,000	2/95	Not Req.	2/95
UT San Antonio	Engineering/Biotechnology Phase II	3,517,000	10/93	7/21/95	2/95
UT San Antonio	Downtown Building	14,905,000	10/93	1/27/95	5/95
UT El Paso	Classroom & Faculty Office Bldg.	5,500,000	8/93	7/14/94	7/95
Total Tuition Projects		74,283,000			
 <u>Part I</u>					
<u>Revenue Projects (Construction Completed)</u>					
UTSystem	Parking Garage	700,000	10193	6/27/94	10/93
UT El Paso	Stanton Building	1,250,000	2/95*	1/27/95	2/95
UT Arlington	Utility Tunnel	3,805,000	10/90	10/24/91	10/91
UT Austin	Student Union Renovation	1,939,000	10/89	10/25/90	8/92
UT Austin	Parking Garage #2	3,000,000	12/90	10/24/91	5/92
UT Pan American	Academic Building	3,000,000	2/90	7/13/90	10/91
UTSMC	Aston	4,048,163	10/89	10/25/90	2/91
UTSMC	Aston-8th Floor	3,445,000	10/91	10/24/91	5/92
UTSMC	Aston-9th Floor	3,055,000	10/92	10/30/92	4/93
UTSMC	North Campus - Phase I	10,673,012	4/89	10/27/89	2/91
UTSMC	North Campus - Phase II	39,439,825	10/91	10/24/91	10/92
UTSMC	Purchase of 3 buildings & Land	7,500,000	8/95	10/26/95	8/95
Total Revenue Projects		81,855,000			
Total Debt To Be Issued For Projects		156,138,000			
Issuance Cost & Underwriters Discount		917,000			
Total Debt To Be Issued		157,055,000			

* Executive Committee Letter (95-7) ratified by Board at the February, 1995 meeting.

EXHIBIT B

SECTION 55.1714 FINANCING STATUS

\$ in millions

<u>institution</u>	<u>Total Authorized</u>	<u>Previously Issued</u>	<u>New Money</u>	<u>Total Issued</u>	<u>Balance To Be Issued</u>
The University of Texas at Brownsville	\$23.50	\$7.675	\$15.825	\$23.500	\$0.000
The University of Texas at El Paso	23.00	11.965	5.855	\$17.820	\$5.180
The University of Texas - Pan American	26.00	14.846	11.154	\$26.000	\$0.000
The University of Texas at San Antonio	63.50	24.673	30.322	\$54.995	\$8.505
The University of Texas HSC at San Antonio	25.00	10.225	11.127	\$21.352	\$3.648
The University of Texas at Austin (Telescope)	2.00	2.000	0.000	\$2.000	\$0.000

RECESS FOR COMMITTEE MEETINGS AND COMMITTEE REPORTS TO THE BOARD.--At 1:35 p.m., the Board recessed for the meetings of the Standing Committees, and Chairman Rapoport announced that at the conclusion of each committee meeting the Board would reconvene to approve the report and recommendations of that committee.

The meetings of the Standing Committees were conducted in open session and the reports and recommendations thereof are set forth on the following pages.

REPORTS AND RECOMMENDATIONS OF STANDING COMMITTEES

REPORT OF EXECUTIVE COMMITTEE (Page 18).--In compliance with Section 7.14 of Chapter I of Part One of the Regents' Rules and Regulations, Chairman Rapoport reported that there were no actions by the Executive Committee since the last meeting for ratification and approval by the U. T. Board of Regents except for Executive Committee Letters 95-23 through 95-26 and 96-1 through 96-2 as noted below:

U. T. System: Approval of Executive Committee Letters 95-23 Through 95-26 and 96-1 Through 96-2 Via the Chancellor's Docket Process.--Chairman Rapoport noted that in keeping with approved procedures Executive Committee Letters 95-23 through 95-26 and 96-1 through 96-2, which had been distributed since the August 1995 meeting of the Board and which had received the prior approval of the Executive Committee, now appear in the U. T. System Administration Docket on Pages ECL 1 - 7 and would be considered for approval or ratification on the agenda of the Business Affairs and Audit Committee as set out on Page 19.

REPORT AND RECOMMENDATIONS OF THE BUSINESS AFFAIRS AND AUDIT COMMITTEE (Pages 19 - 152).--Committee Chairman Smiley reported that the Business Affairs and Audit Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Business Affairs and Audit Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. System: Approval of Chancellor's Docket No. 83 (Catalog Change).--Upon recommendation of the Business Affairs and Audit Committee, the Board approved Chancellor's Docket No. 83 in the form distributed by the Executive Secretary. It is attached following Page 270 in the official copies of the Minutes and is made a part of the record of this meeting.

It was expressly authorized that any contracts or other documents or instruments approved therein had been or shall be executed by the appropriate officials of the respective institution involved.

It was ordered that any item included in the Docket that normally is published in the institutional catalog be reflected in the next appropriate catalog published by the respective institution.

Committee Chairman Smiley noted that Executive Committee Letter 95-26 on Pages ECL 3 - 4 of The University of Texas System Administration Docket reflects a change in the number of companies originally approved to offer Optional Retirement Program services to employees of the U. T. System. Eighteen companies were originally approved. However, since that approval, one company has requested to be withdrawn and another has been removed from the approved list due to financial ratings dropping below the required minimum. Only 16 companies are now authorized to provide Optional Retirement Program services to eligible U. T. System employees.

To avoid any appearance of a possible conflict of interest, Regent Deily was recorded as abstaining from any vote on Item 3 on Page G - 4 of The University of Texas Medical Branch at Galveston Docket related to a contract with Houston Lighting & Power Company.

2. U. T. Board of Regents: Adoption of Resolution Approving and Authorizing the Issuance of Board of Regents of The University of Texas System Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995, in an Aggregate Principal Amount of \$26,000,000, and Approval of the Official Statement and Official Notice of Sale; Authorization for the Competitive Sale of the Bonds as Specified in the Resolution; Appointment of Vinson & Elkins L.L.P., Austin, Texas, as Bond Counsel and Rafael Quintanilla, Jr., Austin, Texas, as Special Counsel to the Board; Appointment of Texas Treasury, Austin, Texas, as Paying Agent; and Authorization for Officers of U. T. System to Complete All Transactions.--The Business Affairs and Audit Committee recommended and the Board:

- a. Adopted the Resolution and approved the Official Statement and Official Notice of Sale substantially in the form set out on Pages 22 - 131 to authorize the issuance of Board of Regents of The University of Texas System Constitutional Appropriation Bonds (The University of Texas - Pan American), Series 1995, in an aggregate principal amount of \$26,000,000, with a final maturity of 2005, to be used to provide proceeds to finance improvements in classrooms and facilities at U. T. Pan American and to pay the issuance cost of the bonds
- b. Authorized the competitive sale of the bonds
- c. Appointed Vinson & Elkins L.L.P., Austin, Texas, as Bond Counsel and Rafael Quintanilla, Jr., Austin, Texas, as Special Counsel to the Board
- d. Appointed the Texas Treasury, Austin, Texas, as Paying Agent
- e. Authorized 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.

Pursuant to Article VII, Section 17 of the Texas Constitution, U. T. Pan American receives an annual appropriation of funds to be used for certain purposes out of the first money coming into the State Treasury and not otherwise appropriated by the Texas Constitution. Under that authority, the U. T. Board of Regents may pledge up to 50% of the money allocated to secure the payment of bonds or notes.

During the 1995 session and based on a recommendation of the Texas Higher Education Coordinating Board, the State Legislature allocated \$8,613,041 for U. T. Pan American and \$1,561,459 for The University of Texas at Brownsville out of the \$175 million annual constitutional appropriation.

It is the intention of the U. T. Board of Regents to make a good faith effort to achieve HUB participation in all bond sales. In this competitive sale, the bonds are to be awarded on the basis of the lowest true interest cost; however, in the Notice of Sale, the Board specifies that Historically Underutilized Business (HUB) participation is encouraged.

RESOLUTION

authorizing the issuance, sale and delivery of

Board of Regents
of
The University of Texas System
Constitutional Appropriation Bonds
(The University of Texas — Pan American)
Series 1995

and approving and authorizing instruments and procedures
relating thereto

November 9, 1995

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	
DEFINITIONS. INTERPRETATION AND FINDINGS	
Section 1.01.	DEFINITIONS 2
Section 1.02.	RECITALS, TABLE OF CONTENTS, TITLES AND HEADINGS 4
Section 1.03.	INTERPRETATION 5
ARTICLE II	
AUTHORIZATION AND TERMS OF THE BONDS	
Section 2.01.	AUTHORIZATION AND AUTHORIZED AMOUNT 5
Section 2.02.	DESIGNATION, FORM, NUMBERS, DATE AND DENOMINATION OF THE BONDS 5
Section 2.03.	INTEREST PAYMENT DATES, INTEREST RATES AND MATURITY OF THE BONDS 5
Section 2.04.	NO REDEMPTION PRIOR TO MATURITY 6
Section 2.05.	MEDIUM AND PLACE OF PAYMENT 6
Section 2.06.	FORM OF BOND 6
Section 2.07.	EXECUTION OF BONDS 11
Section 2.08.	AUTHENTICATION OF BONDS 12
Section 2.09.	REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT OF BONDS 12
Section 2.10.	BOOK-ENTRY ONLY SYSTEM 14
Section 2.11.	CANCELLATION 15
Section 2.12.	TEMPORARY BONDS 15
Section 2.13.	OWNERSHIP OF BONDS 15
Section 2.14.	PAYING AGENT AND REGISTRAR 15
Section 2.15.	SUBSTITUTE PAYING AGENT AND REGISTRAR 16
Section 2.16.	INITIAL BONDS; APPROVAL BY ATTORNEY GENERAL; REGISTRATION BY COMPTROLLER 16
ARTICLE III	
SECURITY AND PAYMENT FOR THE BONDS; ADDITIONAL PARITY BONDS AND NOTES	
Section 3.01.	SECURITY AND PLEDGE 16
Section 3.02.	APPROPRIATION ACCOUNT; BOND ACCOUNT 16
Section 3.03.	PROCEDURE FOR REMITTING TO PAYING AGENT 17
Section 3.04.	INTEREST AND SINKING FUND 17
Section 3.05.	BOARD'S PAYMENTS 18
Section 3.06.	ADDITIONAL PARITY BONDS AND NOTES 18

ARTICLE IV

REMEDIES

Section 4.01. REMEDIES 19

ARTICLE V

CONTINUING DISCLOSURE UNDERTAKING

Section 5.01. MATERIAL EVENT NOTICES 19
Section 5.02. LIMITATIONS, DISCLAIMERS, AND AMENDMENTS 19
Section 5.03. DEFINITIONS 20

ARTICLE VI

PROVISIONS CONCERNING
FEDERAL INCOME TAX EXCLUSION

Section 6.01. GENERAL TAX COVENANT 21
Section 6.02. USE OF PROCEEDS 21
Section 6.03. NO FEDERAL GUARANTY 21
Section 6.04. BONDS ARE NOT HEDGE BONDS 22
Section 6.05. NO-ARBITRAGE COVENANT 22
Section 6.06. ARBITRAGE REBATE 22
Section 6.07. INFORMATION REPORTING 22
Section 6.06. CONTINUING OBLIGATION 22

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. INDIVIDUALS NOT LIABLE 23
Section 7.02. DEFEASANCE OF BONDS 23
Section 7.03. **AMENDMENT** OF RESOLUTION 23
Section 7.04. ISSUANCE AND SALE OF BONDS 24
Section 7.05. CONSTRUCTION ACCOUNT 26
Section 7.06. DTC LETTER OF REPRESENTATION. 26
Section 7.07. FURTHER PROCEDURES 26

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM CONSTITUTIONAL APPROPRIATION **BONDS (THE UNIVERSITY OF TEXAS — PAN AMERICAN)**, SERIES 1995, AND APPROVING AND AUTHORIZING INSTRUMENTS AND PROCEDURES RELATING THERETO

WHEREAS, article VII, section 17 of the Texas Constitution, as amended, provides for the annual appropriation of an amount approved by two-thirds vote of the membership of each house of the Texas legislature (but not less than \$100 million) out of the first money coming into the state treasury not otherwise appropriated by the Texas Constitution to be used by eligible agencies and institutions of higher education for the purpose of **acquiring** land either with or without permanent improvements, constructing and equipping buildings or other permanent improvements, acquiring capital equipment, library books, and library materials, paying for acquiring, constructing, or equipping or for major repair or rehabilitation of buildings, facilities, other permanent improvements, or capital equipment used jointly for educational and general activities and for auxiliary enterprises to the extent of their use for educational and general activities, and for major repair and rehabilitation of buildings or other permanent improvements: provided, that funds appropriated by such constitutional provision may not be used for the purpose of constructing, equipping, repairing, or rehabilitating buildings or other permanent improvements that are to be used only for student housing, intercollegiate athletics, or auxiliary enterprises; and

WHEREAS, The University of Texas — Pan American is designated by article VII, section 17 of the Texas Constitution, as amended, as an eligible agency and institution of higher education thereunder: and

WHEREAS, pursuant to the Act (as hereinafter defined), the Texas legislature has increased the annual amount appropriated by article VII, section 17 of the Texas Constitution, as amended, to \$175 million during each Fiscal Year (as hereinafter defined) for the ten-year period beginning on September 1, 1995, and **\$10,174,500** of the amount so appropriated has been allocated for The University of Texas — Pan American and The University of Texas at Brownsville in each such Fiscal Year, all in accordance with the terms of said constitutional provision and the Act; and

WHEREAS, of the total annual amount so allocated by the Act for The University of Texas — Pan American and The University of Texas at Brownsville, **\$8,613,041** has been further allocated for The University of Texas — Pan American; and

WHEREAS, the Board (as hereinafter defined) is authorized and directed to govern, operate, support and maintain each of the component institutions of the System (as hereinafter defined), including The University of Texas — Pan American; and

WHEREAS, the Board is authorized by **article VII**, section 17 of the Texas Constitution, as amended, to pledge up to fifty percent (50%) of the money allocated to the Board for The University of Texas — Pan American to secure the payment of the principal of and interest on bonds and notes issued by the Board pursuant to said constitutional provision for the purposes enumerated therein: and

WHEREAS, the Board has determined to issue the bonds herein authorized and to pledge to secure payment of the principal of and interest on such bonds up to fifty percent (50%) of the money allocated for The University of Texas — Pan American for the ten-year period beginning on September 1, 1995 and ending on August 31, 2005, pursuant to such article VII, section 17 of the Texas Constitution, as amended, and the Act; and

WHEREAS, the Board has affirmatively found and determined that the amount of Pledged Revenues (as hereinafter defined) will be fully sufficient to provide for the full and timely payment of principal of and interest on such bonds;

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

ARTICLE I

DEFINITIONS, INTERPRETATION AND FINDINGS

Section 1 .01. DEFINITIONS. Unless expressly provided otherwise herein or unless the context shall indicate a contrary meaning or intent, the terms and expressions defined below, when used in this Resolution, **shall** have the meanings set forth below for all purposes of this Resolution, except the FORM OF BOND appearing in Section 2.06 hereof.

“Act” means The Excellence in Higher Education Act, Chapter 62, Texas Education Code, as amended.

“Additional Parity Bonds and Notes” means the additional parity bonds and the additional parity notes permitted to be issued pursuant to Section 3.06 hereof.

“Appropriation Account” means the account created and established pursuant to Section 3.02 hereof.

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

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

“Board” means the Board of Regents of the System.

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

“Bond **Account**” means the account created and established pursuant to Section 3.02 hereof.

“Code” means the Internal Revenue Code of 1986, as amended.

“**Comptroller**” means the Comptroller of Public Accounts of the State of Texas.

“Construction Account” means the account created and established pursuant to Section 7.05 hereof.

“Counsel’s Opinion” means a written legal opinion of nationally recognized bond counsel acceptable to the Board.

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

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

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

"**Eligible Project**" means the acquisition of land either with or without permanent improvements, the construction and equipping of buildings or other permanent improvements, major repair and rehabilitation of buildings and other permanent improvements, the acquisition of capital equipment, **library** books and library materials for The University of Texas — Pan American pursuant to and in compliance with article VII, section 17 of the Texas Constitution, as amended, and the Act. The term "Eligible Project" does not include the constructing, equipping, repairing, or rehabilitating buildings or other permanent improvements that are to be used only for student housing, intercollegiate athletics, or auxiliary enterprises.

"**Fiscal Year**" means the period beginning on September 1 of any calendar year and continuing through August 31 of the following calendar year.

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

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

"**Interest and Sinking Fund**" means the fund created and established pursuant to Section 3.04 hereof.

"**Interest Payment Date**" means the fifteenth day of the first February or August that is at least sixty days following the dated date of the Bonds (determined in accordance with Section 2.02 hereof) and semiannually of the fifteenth day of each February and August thereafter while any of the Bonds is outstanding and unpaid.

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

"**Pledged Revenues**" means fifty percent (50%) of the amount allocated annually to The University of Texas — Pan American pursuant to article VII, section 17 of the Texas Constitution, as amended, and the Act, for each fiscal year starting with the fiscal year that began on September 1, 1995 and ending with the fiscal year that ends on August 31, 2005, from the \$175 million annual constitutional appropriation in each such fiscal year out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution to be used for certain eligible agencies and **institutions of higher education**.

“Project Costs” means all costs and expenses incurred in relation to Eligible Projects, including, without limitation, design, planning, engineering and legal costs, acquisition costs of land, interests in land, right-of-way and easements, construction costs, costs of machinery, equipment and other capital assets incident and related to the operation, maintenance and administration of an Eligible Project, and financing costs, including interest during construction and thereafter, underwriters discount and/or fees, legal, financial and other professional services, and reimbursements for such Project Costs attributable to Eligible Project incurred prior to issuance and delivery of the Bonds or any Additional Parity Bonds and Notes. ‘Project Costs’ shall also include all costs incurred by the Board in connection with the issuance, sale and delivery of the **Bonds** or any Additional Parity Bonds and Notes.

“Record Date” means, with respect to any Interest Payment Date, the 1st day of the same month during which such Interest Payment Date occurs.

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

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

‘Resolution’ means this resolution authorizing the Bonds.

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

The University of Texas at Arlington;
The University of Texas at Austin;
The University of Texas at Brownsville;
The University of Texas at Dallas;
The University of Texas at El Paso;
The University of Texas — Pan American;
The University of Texas of the Permian Basin;
The University of Texas at San Antonio;
The University of Texas at Tyler;
The University of Texas Southwestern Medical Center at Dallas;
The University of Texas Medical Branch at Galveston;
The University of Texas Health Science Center at Houston;
The University of Texas Health Science Center at San Antonio;
The University of Texas M.D. Anderson Cancer Center; and
The University of Texas Health Center at Tyler,

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

“Treasurer” means the Treasurer of the State of Texas.

Section 1.02. RECITALS, TABLE OF CONTENTS, TITLES AND HEADINGS. The terms and phrases used in the recitals of this Resolution have been included for convenience of reference only and the meaning, construction and interpretation of such terms and phrases for purposes of this Resolution shall be determined solely by reference to Section 1 .01 of this Resolution. The table of

contents, titles and headings of the articles and sections of this Resolution have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Resolution or any provision hereof or in ascertaining intent, if any question of intent should arise.

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

ARTICLE II

AUTHORIZATION AND TERMS OF THE BONDS

Section 2.01. AUTHORIZATION AND AUTHORIZED AMOUNT. Pursuant to authority conferred by and in accordance with the provisions of the Texas Constitution and laws of the State of Texas, particularly article VII, section 17 of the Texas Constitution, the Act, Section 65.46, Texas Education Code, and article 717q, Texas Revised Civil Statutes Annotated, all as amended, the Bonds are hereby authorized to be issued, in the principal amount of TWENTY-SIX MILLION DOLLARS (\$26,000,000) for the purpose of obtaining funds to pay the Project Costs of certain Eligible Projects, all in accordance with and subject to the terms, conditions and limitations contained herein.

Section 2.02. DESIGNATION, FORM, NUMBERS, DATE AND DENOMINATION OF THE BONDS. Each Bond shall be designated: "BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM CONSTITUTIONAL APPROPRIATION BOND (THE UNIVERSITY OF TEXAS — PAN AMERICAN), SERIES 1995'. The Bonds shall be issuable only in fully registered form without coupons. The Bonds shall be lettered and numbered separately from 1 upward prefixed by the letter R. Each Bond shall be in an Authorized Denomination and shall be dated as of the first calendar day of the month in which such Bond is sold at public sale pursuant to Section 7.04 of this Resolution.

Section 2.03. INTEREST PAYMENT DATES, INTEREST RATES AND MATURITY OF THE BONDS. Interest on the Bonds shall be payable on the first Interest Payment Date that is at least sixty (60) days following the date of the Bonds and continuing on each Interest Payment Date thereafter until maturity. The Bonds shall bear interest at the fixed rate or rates of interest per annum, calculated on the basis of a 360-day year composed of twelve 30-day months, determined at the public sale held pursuant to Section 7.04 of this Resolution; provided that (i) the interest rate or rates for the Bonds must be in a multiple of 1/8 of 1% or 1/20 of 1%, with all of the Bonds of the same maturity bearing the same interest rate, (ii) the maximum interest rate per annum borne by any Bond must not exceed 15%, and (iii) the highest interest rate on any Bond must not exceed the lowest interest rate on the Bonds by more than 4%. The Bonds shall mature and become payable August 15 in each of the years and amounts as set forth below:

<u>Auaust 15</u>	<u>Principal Amount</u>	<u>Auaust 15</u>	<u>Principal Amount</u>
1996	\$2,330,000	2001	\$2,615,000
1997	2,120,000	2002	2,735,000
1998	2,300,000	2003	2,860,000
1999	2,400,000	2004	2,995,000
2000	2,505,000	2005	3,140,000

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

Section 2.04. NO REDEMPTION PRIOR TO MATURITY. The Bonds are not subject to redemption prior to stated maturity.

Section 2.05. MEDIUM AND PLACE OF PAYMENT. The principal of the Bonds shall be payable to the respective registered owners thereof upon presentation and surrender thereof at maturity at the designated **office** for payment of the Paying Agent. Interest on the Bonds shall be payable by the Paying Agent on each Interest Payment Date, by check dated as of such Interest Payment Date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of **each** such registered owner as it appears on the Record Date preceding each such Interest Payment Date. In addition, interest may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owners of the Bonds. Notwithstanding the foregoing, any payment to **Cede & Co.**, as nominee of DTC, or its registered assigns, shall be made in accordance with existing arrangements between the Board and DTC. If the **date** for payment of principal of or interest on the Bonds 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 designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding date that is **not** a Saturday, Sunday, legal holiday, or a day on which such banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. Principal of and interest on the Bonds are payable in lawful money of the United States of America without exchange or collection charges.

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

FORM OF BOND

NO. _____

PRINCIPAL AMOUNT

\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
CONSTITUTIONAL APPROPRIATION BOND
(THE UNIVERSITY OF TEXAS — PAN AMERICAN)
SERIES 1995

INTEREST RATE

MATURITY DATE

DATED DATE

CUSIP NO.

_____ %

____/____

_____ 1995

ON THE MATURITY DATE specified above, the BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM (the "Board"), being the governing body of The University of Texas System, an agency of the State of Texas, hereby promises to pay to _____ or the registered assignee hereof (either being hereinafter called the 'registered owner') solely from 'Pledged Revenues,' as defined herein, the principal amount of _____ and to pay interest thereon, calculated on the basis of a 360day year composed of twelve **30-day** months, from the dated date specified above to the maturity date specified above, at the interest rate per annum specified above; with interest being payable on **15, 199**____, and semiannually on the 15th day of each **1**____ and **1**____ thereafter, except that if the date of authentication of this Bond is later than **1**____, 1996, such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date (hereinafter defined) but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and **surrender of this Bond at maturity**, at the designated office for payment of the Treasurer of the State of Texas, which initially is the "Paying Agent" for this Bond. The payment of interest on this Bond shall be made by the Paying Agent to the registered owner hereof on each interest payment date by check, dated as of such interest payment date, drawn by the Paying Agent on, and payable solely from, funds of the Board required by the resolution authorizing the issuance of the Bonds (the 'Bond Resolution') to be on deposit with the Paying Agent for such purpose as hereinafter provided; and such check shall be sent by the Paying Agent by United States mail, first-class postage prepaid, on each such interest payment date, to the registered owner hereof, at the address of the registered owner, as it appeared on the 1st day of the same month as such interest payment date (the 'Record Date') on the Registration Books kept by the Board, which initially is the Registrar for the Bonds, as hereinafter described. In addition, interest may be paid by such other method acceptable to the Paying Agent, requested by, and at the risk and expense of, the registered owner hereof. The Board 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, from the "Interest and Sinking Fund" maintained under the Bond Resolution, the amounts required to provide for the payment, in immediately available funds, of all

*To be completed after the first Interest Payment has been determined by the Authorized Representative in accordance with Section 7.04.

\\j0264\uni918\58005\resol.5
10/09/95 (10:12am)

-7-

principal of and interest on the Bonds, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined by a book entry at a securities depository for the Bonds, payments made to the securities depository, or its nominee, shall be made in accordance with arrangements between the Board and the securities depository.

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

THIS BOND is one of an issue of Bonds authorized to be issued in the aggregate principal amount of **\$26,000,000**, FOR THE PURPOSE OF PAYING THE 'PROJECT COSTS' OF "ELIGIBLE PROJECTS OF THE UNIVERSITY OF TEXAS — PAN AMERICAN (the quoted terms having the meanings set forth in the Bond Resolution).

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

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

one requesting such conversion and exchange shall pay any taxes or governmental charges required to be paid with respect thereto as a condition precedent to the exercise of such privilege of conversion and exchange.

THE REGISTRAR shall not be required to make any transfer of registration of this Bond or any portion hereof, or any conversion and exchange hereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

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

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

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; and that this Bond and the other Bonds of this series are special obligations of the Board and are equally and ratably payable solely from, and secure solely by a pledge of, up to fifty percent (50%) of the money allocated annually to the Board for The University of Texas — Pan American pursuant to article VII, section 17 of the Texas Constitution, as amended, and 'The Excellence in Higher Education Act,' Chapter 62, Texas Education Code, as amended, for each fiscal year starting with the fiscal year that began on September 1, 1995 and ending with the fiscal year that ends on August 31, **2005**, from the \$175 million annual constitutional appropriation during each such fiscal year out of the first money coming into the Texas Treasury and not otherwise appropriated by the Texas Constitution to be used by certain eligible agencies and institutions of higher education, which are the 'Pledged Revenues' as defined in the Resolution.

THE BOARD HAS RESERVED THE RIGHT, subject to the restrictions referred to in the Bond Resolution, (i) to issue Additional Parity Bonds and Notes that also may be secured by and made payable from a pledge of Pledged Revenues, in the same manner and to the same extent as this Bond and other Bonds of this series, and (ii) to make certain amendments to the Bond Resolution with the approval of the owners of 51% in principal amount of all outstanding bonds and notes that are secured by and payable from a pledge of Pledged Revenues.

THE REGISTERED OWNER hereof shall never have the right to demand payment of this Bond or the interest hereon out of any funds from any source whatsoever other than Pledged Revenues.

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

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

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

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

(BOARD SEAL)

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

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS

REGISTER NO.

THE **STATE** OF TEXAS

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

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

Comptroller of Public Accounts of
the State of Texas

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

REGISTRARS AUTHENTICATION CERTIFICATE

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

_____, TEXAS
Registrar

Dated: _____

Authorized Signature

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

ASSIGNMENT

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

(Assignee's **Social** Security or Taxpayer Identification Number)

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

and hereby irrevocably constitutes and appoints

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

Date: _____

Signature Guaranteed:

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

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

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

Section 2.07. EXECUTION OF BONDS The Bonds shall be executed on behalf of the Board by the Chairman and the Executive Secretary of the Board, by their manual or facsimile signatures, and the official **seal of** the **Board** shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by said officers of the Board, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the Board had been manually impressed upon each of the Bonds. In the event that any officer of the Board whose manual or facsimile signature shall appear on the Bonds shall cease to be such officer before the authentication of such Bonds or before the delivery of such

Bonds, such manual or facsimile signature shall nevertheless be **valid and sufficient for all purposes as if such** officer had remained in such office.

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

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

Section 2.09. REGISTRATION, TRANSFER, EXCHANGE AND REPLACEMENT OF BONDS.

(a) The Board shall keep or cause to be kept Registration Books at the designated office for transfer of the Registrar, and the Board hereby appoints the Registrar as agent to keep such Registration Books and make such transfers and registrations under such reasonable regulations as the Board and Registrar may prescribe. The Registrar shall make such transfers and registrations as provided herein.

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

(b) Each Bond issued and delivered pursuant to this Resolution, to the extent of the unpaid principal balance thereof, may, upon surrender of such Bond at the designated office for transfer of the Registrar, together with a written request **therefor** duly executed by the registered owner or its assignee, or its duly authorized attorney or representative, with guarantee of signatures satisfactory to the Registrar, at the option of the registered owner or such assignee, as appropriate, be converted into and exchanged for fully registered Bonds, without **interest coupons**, in an aggregate principal amount equal to the unpaid principal balance of any Bond so surrendered, and payable to the appropriate registered owner or assignee, as the case may be.

Registration of each Bond may be transferred in the Registration Books only upon presentation and surrender of such Bond to the Registrar for transfer of registration and cancellation, together with proper written instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing (i) the assignment of the Bond, or any portion thereof in any Authorized Denomination, to the assignee thereof, and (ii) the right of such assignee to have the Bond or any such portion thereof registered in the name of such assignee. A form of assignment shall be printed or endorsed on each Bond, which shall be executed by the registered owner or its duly authorized attorney or representative to evidence an assignment thereof. Upon the assignment and

surrender of any Bond or portion thereof for transfer of registration, an authorized representative of the Registrar shall make such transfer in the Registration Books, and shall deliver a new, fully registered substitute Bond having the characteristics herein described, payable to such assignee (which then will be the registered owner of such new Bond), or to the previous registered owner in case only a portion of a Bond is being assigned and transferred, all in conversion of and exchange for said assigned Bond or any portion thereof.

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

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

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

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

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

(d) The Registrar shall convert and exchange or replace Bonds as provided herein, and each fully registered Bond delivered in conversion of and exchange for or replacement of any Bond or portion thereof as permitted or required by any provision of this Resolution shall constitute one of

the Bonds for all purposes of this Resolution, and may again be converted and exchanged or replaced. No **additional** ordinances, orders, or resolutions need be passed or adopted by the governing body of the Board or any other body or person so as to accomplish the foregoing conversion and exchange or replacement of any Bond or portion thereof. For purposes of Section 6 of article **717k-6**, Texas Revised Civil Statutes Annotated, as amended, this Section of this Resolution shall constitute authority for the issuance of any substitute, exchange or replacement Bond hereunder without necessity of further action by the Board or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Registrar, and the Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect provided in this Resolution. Upon the execution of the Registrar's Authentication Certificate appearing on any converted and exchanged or replaced Bond, the converted and exchanged or replaced Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Initial Bonds originally issued pursuant to this Resolution, approved by the Attorney General.

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

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, none of the Board, the Paying Agent or the Registrar shall have any responsibility or obligation to any DTC Participant or to any person on whose behalf a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, none of the Board, the Paying Agent or the Registrar shall have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown on the Registration Books, of any notice with respect to the Bonds, and (iii) the payment to any DTC Participant or any other person, other than a registered owner of the Bonds, as shown in the Registration Books, of any amount with respect to principal of or interest on the Bonds.

Replacement Bonds may be issued directly to beneficial owners of Bonds other than DTC, or its nominee, but only in the event that (i) DTC determines not to continue to act as securities depository for the Bonds (which determination shall become effective no less than 90 days after written notice to such effect to the Board and the Paying Agent and Registrar); or (ii) the Board has advised DTC of its determination (which determination is conclusive as to DTC and beneficial owners of the Bonds) that DTC is incapable of discharging its duties as securities depository for the Bonds; or (iii) the Board has determined (which determination is conclusive as to DTC and the beneficial owners of the Bonds) that the interests of the beneficial owners of the Bonds might be adversely affected if such book-entry only system of transfer is continued. Upon occurrence of any of the foregoing events, the Board shall use its best efforts to attempt to locate another qualified securities depository. If the Board fails to locate another qualified securities depository to replace DTC, the Board shall cause to be authenticated and delivered replacement Bonds, in certificate form, to the beneficial owners of the Bonds. In the event that the Board makes the determination noted in (ii) or (iii) above (provided that the Board undertakes no obligation to make any investigation to determine

the occurrence of any events that would permit the Board to make any such determination), and has made provisions to notify the beneficial owners of Bonds of such determination by mailing an appropriate notice to DTC, it shall cause to be issued replacement Bonds in certificate form to beneficial owners of the Bonds as shown on the records of DTC provided to the Board.

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

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

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

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

Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the **benefit** and security of this Resolution. The Board, without unreasonable delay, shall prepare, execute and deliver to the Registrar, and thereupon, upon the presentation and surrender of the Bonds in temporary form to the Registrar, the Registrar shall authenticate and deliver in exchange **therefor** Bonds of the same maturity and interest rate, in definitive form, in Authorized Denominations, and in the same aggregate principal amount, as the Bonds in **temporary** form surrendered. Such exchange shall be made without the making of any charge **therefor** to any holder of **Bonds**.

Section 2.13. **OWNERSHIP OF BONDS.** The entity in whose name any Bond shall be registered in the Registration Books at any time shall be deemed and treated as the absolute owner thereof for all purposes of this Resolution, whether or not such Bond shall be overdue, and none of the Board, the Paying Agent or the Registrar shall be affected by any notice to the contrary. Payment of, or on account of, the principal of and interest on any such Bond shall be made only to such registered owner. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sums so paid.

Section 2.14. **PAYING AGENT AND REGISTRAR.** The Board shall act as the initial Registrar for the Bonds and shall perform such duties as are required by the Registrar hereunder. The Board hereby appoints the Treasurer to act as the initial Paying Agent for paying the principal of and interest on the Bonds. The Paying Agent shall keep proper records of all payments made by the Board and the Paying Agent with respect to the Bonds as provided in this Resolution. The Paying Agent shall perform such duties as are required by the Paying Agent hereunder. The Board hereby covenants with the registered owners of the Bonds that it will pay the fees and charges, if any, of the Paying Agent for its services with respect to the payment of the principal of and interest on the Bonds, when due.

Section 2.15. **SUBSTITUTE PAYING AGENT AND REGISTRAR.** The Board covenants with the registered owners of the Bonds that, at all times while the Bonds are outstanding, the Board will provide a competent and legally **qualified** bank, trust **company**, financial institution, or other **agency** to act as and perform the services of Paying Agent and Registrar for the Bonds under this Resolution, and that the Paying Agent and **Registrar** will be one entity; provided, however, that during any period in which DTC is serving as **securities depository** for all the Bonds, the Treasurer may be the Paying Agent and the Board may be the Registrar. The Board reserves the right to, and may, at its option, change the Paying Agent and Registrar upon not less than 120 days written notice to the Paying Agent and Registrar, to be effective not later than 60 days prior to **the** next Interest Payment Date after such notice. In the event that the entity at any time acting as **Paying** Agent or Registrar (or their successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the Board covenants that it will promptly appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent and Registrar under this Resolution. Upon any **change** in the Paying Agent or Registrar, the previous Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Registrar designated and appointed by the Board. Upon any change in the Registrar, the Board promptly will cause a written notice thereof to be sent by the new Paying Agent or 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 or Registrar. By accepting the position and performing as such, each Paying Agent and Registrar shall be deemed to have agreed to the provisions of this Resolution, and a certified copy of this Resolution shall be delivered to each Paying Agent and Registrar.

Section 2.16. **INITIAL BONDS; APPROVAL BY ATTORNEY GENERAL; REGISTRATION BY COMPTROLLER.** There shall be one Initial Bond for each maturity, numbered consecutively in the order of their maturity. Each Initial Bond shall be registered in the name, or at the direction, of the purchaser thereof determined at the public sale held pursuant to Section 7.04 of this Resolution. The Initial Bonds shall be submitted to the Attorney General of the State of Texas for approval and shall be registered by the Comptroller of Public Accounts of the State of Texas.

ARTICLE III

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

Section 3.01. **SECURITY AND PLEDGE.** Pursuant to the provisions of article VII, section 17 of the Texas Constitution, as amended, all the Bonds, and any Additional Parity Bonds and Notes hereafter issued, and the interest thereon, shall be payable solely from Pledged Revenues and are hereby equally and ratably secured solely by a pledge of Pledged Revenues.

Section 3.02. **APPROPRIATION ACCOUNT; BOND ACCOUNT.** (a) There has heretofore been established in the State Treasury separate accounts known as "The University of Texas — Pan American Constitutional Appropriation Account" (the 'Appropriation Account@) and "The University of Texas — Pan American HEAF Debt Service Account" (the "Bond Account").

(b) As received in the State Treasury, the money appropriated by article VII, section 17 of the Texas Constitution, as amended, and allocated for The University of Texas — Pan American will be deposited and credited to the Appropriation Account.

(c) As received into the Appropriation Account, up to 50% of the amount allocated to The University of Texas — Pan American will be credited to the Bond Account, in such amounts as are

necessary to pay debt service for the Fiscal Year, to be held in accordance with the pledge contained in Section 3.01 hereof and paid out in accordance with Section 3.03 hereof.

(d) After all payments required herein for the payment of principal of and interest on the Bonds and any Additional Parity Bonds and Notes in any Fiscal Year have been made, any money remaining in the Bond Account and not required for making such payments during such Fiscal Year may be used by the Board for any purposes permitted by article VII, section 17 of the Texas Constitution,, as amended, and the Board reserves the right to use money in excess thereof for such purposes as may be permitted pursuant to said constitutional provision.

Section 3.03. PROCEDURE FOR REMITTING TO PAYING AGENT. (a) The Act requires the Comptroller to distribute funds allocated under the Act upon presentation of claims to the Comptroller and the issuance of warrants in accordance with the provisions of the Act. Prior to an Interest Payment Date, the Board shall submit a purchase voucher, or other claim in form acceptable to the Comptroller (with a copy to the Treasurer), for money in the Bond Account necessary to pay the principal of and interest on the Bonds as the same shall mature or become due on each such Interest Payment Date. Upon receipt of such purchase voucher or claim, the Comptroller will draw all necessary and proper warrants against the Bond Account, in order to carry out the purpose of this Resolution, to the end that money will be available at the Paying Agent in ample time to pay the principal of and interest on the Bonds, as such principal and interest, respectively, matures and becomes due and shall draw such warrants on or before each Interest Payment Date while any of the Bonds is outstanding and unpaid.

(b) Each such warrant will be made payable to the order of the Paying Agent, and the Comptroller will deliver such warrant to the Paying Agent prior to any Interest Payment Date by first-class mail,, postage prepaid. **Upon** receipt of such warrant by the Paying Agent, the Paying Agent shall give written notice to the Board by first-class mail, postage prepaid (or by other means acceptable to the Board and the Paying Agent) that such warrant has been received.

(c) If the Board fails to receive a copy of such notice prior to any Interest Payment Date, it shall notify the Comptroller of such failure to receive such notice, and take such measures as may be necessary to cause the Comptroller to make the required payments described in subsection (a) of this Section to the Paying Agent.

Section 3.04. INTEREST AND SINKING FUND. (a) A separate and special fund called "The University of Texas — Pan American Constitutional Appropriation Bonds • Interest and Sinking Fund (Series 1995)" is hereby created and shall be established by the Board with the Paying Agent, and the same shall be maintained and used only as provided in this Resolution as long as any Bond is outstanding.

(b) The following amounts shall be deposited into the Interest and Sinking Fund:

(i) immediately after delivery of the Bonds, all accrued interest, if any, received from sale of such Bonds; and

(ii) immediately upon receipt by the Paying Agent, the payments made pursuant to subsection (a) of Section 3.03 hereof.

(c) Except as otherwise specifically provided below, the interest and Sinking Fund shall be used solely to pay the principal of and interest on the Bonds when due, and the Paying Agent shall

make available to itself out of the Interest and Sinking Fund the amounts required to pay the principal of and interest on the Bonds when due.

(d) Except for amounts retained to pay the principal of or interest on any Bonds, when no Bonds shall remain outstanding and the Paying Agent's expenses shall have been paid, any amounts remaining in the Interest and Sinking Fund shall be paid to the Board.

Section 3.05. BOARD'S PAYMENTS. The Board agrees to pay, solely from Pledged Revenues, the principal of and interest on the Bonds when due. Further, the Board obligates itself and agrees to cause the Comptroller and the Treasurer to deposit from Pledged Revenues into the interest and Sinking Fund an amount of immediately available funds which is sufficient to pay on any Interest Payment Date the principal and interest (together with the Paying Agent charges in connection therewith) then due on all outstanding Bonds.

Section 3.06. ADDITIONAL PARITY BONDS AND NOTES. (a) The Board reserves the right and shall have full power at any time and from time to time, to authorize, issue, and deliver additional bonds and notes on a parity with the Bonds, in as many separate installments or series as deemed advisable by the Board, but only for the purposes and to the extent provided in article VII, section 17 of the Texas Constitution, as amended, or in any amendment hereafter made to said article VII, section 17 of the Texas Constitution, or for refunding purposes as provided by law. Such Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be equally and ratably secured by and payable solely from a pledge of Pledged Revenues, in the same manner and to the same extent as are the Bonds and the Additional Parity Bonds and Notes, when issued, and the interest thereon, shall be on a parity and in all respects of equal dignity with each other. It is further covenanted that no installment or series of Additional Parity Bonds or Notes shall be issued and delivered unless:

(i) the Authorized Representative, or some other officer of the System designated by the Board, executes a certificate to the effect that no default exists in connection with any covenant or requirement of this Resolution or any resolution authorizing the issuance of outstanding Additional Parity Bonds and Notes;

(ii) the Comptroller executes a certificate stating that appropriations of money pursuant to article VII, section 17 of the Texas Constitution, as amended, will provide sufficient Pledged Revenues to pay the principal of and interest on the Bonds and Additional Parity Bonds and Notes that will remain outstanding after the issuance of the Additional Parity Bonds and Notes then being issued; and

(iii) the resolution authorizing the Additional Parity Bonds and Notes satisfies the requirements of this Resolution.

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

ARTICLE IV

REMEDIES

Section 4.01. REMEDIES. Any owner or holder of any of the Bonds or Additional Parity Bonds or Notes, when issued, in the event of default in connection with any covenant contained herein, or default in the payment of said obligations, or of any interest due **thereon**, shall have the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment **from** the moneys herein pledged or for enforcing any covenant herein contained.

ARTICLE V

CONTINUING DISCLOSURE UNDERTAKING

Section 5.0'1. 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.

Section 5.02. LIMITATIONS, DISCLAIMERS, AND AMENDMENTS. The Board shall be obligated to observe and perform the covenants specified in this Article 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 notice of any deposit made in accordance with Section 7.02 hereof that causes the Bonds no longer to be outstanding.

The provisions of this Article are for the sole benefit of the beneficial owners of the Bonds, and nothing in this Article, 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 notices which it has expressly agreed to provide pursuant to this Article 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 or hereby undertake to update any information provided in accordance with this Article 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 BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE BOARD, **WHETHER** NEGLIGENT OR **WITHOUT** FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

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

Nothing in this Article 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 Article 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 Article, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Resolution that authorizes such an amendment) of the Bonds outstanding 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 Article, it shall provide notice of such amendment to any SID and 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.

Section 5.03. DEFINITIONS. As used in this Article, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

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

"Rule" means SEC Rule **15c2-12**, as amended from time to time.

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

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

ARTICLE VI

PROVISIONS CONCERNING FEDERAL INCOME TAX EXCLUSION

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

Section 6.02. USE OF PROCEEDS. The Board covenants and agrees that its use of the Net Proceeds of the Bonds will at all times satisfy the requirements set forth in this Section. When used in this Article VI, the term Net Proceeds, when used with respect to the Bonds, shall mean the proceeds from the sale of the Bonds, including, investment earnings on such proceeds, less accrued interest.

(a) The Board has limited and will limit the amount of original or investment proceeds of the Bonds to be used (**other than** use as **a** member of the general public) in the trade or business of any person other than a governmental unit to an amount aggregating no more than ten percent of the Net Proceeds of the Bonds ("private-use proceeds"). For purposes of this Section, the term "person" includes any individual, corporation, partnership, unincorporated association, or any other entity capable of carrying on **a** trade or business; and the term "trade or business" means, with respect to any natural person, any activity regularly carried on for profit and, with respect to persons other than natural persons, any activity other than an activity carried on by **a** governmental unit. Any use of proceeds of the Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 93-19, including any revisions or amendments thereto, shall constitute the use of such proceeds in the trade or business of one who is not **a** governmental unit.

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

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

Section 6.03. NO FEDERAL GUARANTY. The Board covenants and agrees not to take any action, or knowingly omit to take any action within its control, that, if taken or omitted, respectively,

would cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code and applicable regulations **thereunder, except** as permitted by section 149(b)(3) of the Code and such regulations.

Section 6.04. **BONDS ARE NOT HEDGE BONDS.** The Board covenants and agrees that not more than 50 percent of the proceeds of the Bonds will be invested in nonpurpose investments (as defined in section 148(f)(8)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of section **149(g)(3)(A)(ii)** of the Code, and the Board reasonably expects that at least 85 percent of the spendable proceeds of the Bonds will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the date the Bonds are issued.

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

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

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

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

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. INDIVIDUALS NOT LIABLE. All covenants, stipulations, obligations, and agreements of the Board contained in this Resolution shall be deemed to be covenants, stipulations, obligations, and agreements of the System and the Board to the full extent authorized or permitted by the Constitution and laws of the State of Texas. No covenant, stipulation, obligation, or agreement herein contained shall be **deemed to** be a covenant, stipulation, obligation, or agreement of any member of the Board or agent or employee of the Board in his individual capacity and neither the members of the Board nor any officer thereof shall be liable personally on the Bonds or Additional Parity Bonds and Notes when issued, or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 7.02. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of this Resolution, except to the extent **provided** in subsection (c) of this Section, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the Board with the Paying Agent and Registrar for the payment of their services until after all Defeased Bonds shall have become due and payable. At such **time as** a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the 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 other purpose.

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

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

Section 7.03. AMENDMENT OF RESOLUTION. (a) The owners of Bonds aggregating 51% in principal amount of the aggregate principal amount of then-outstanding Bonds shall have the right from time to time to approve any amendment to this Resolution that may be deemed necessary or desirable by the Board: provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the outstanding Bonds, any amendment so as to:

- (i) make any change in the maturity of the outstanding Bonds;

- (ii) reduce the rate of interest borne by any of the outstanding Bonds;
 - (iii) reduce the amount of the principal payable on the outstanding Bonds;
 - (iv) modify the terms of payment of principal of or interest on the outstanding Bonds, or impose any conditions with respect to such payment:
 - (v) affect the rights of the owners of less than all of the Bonds then outstanding;
- or
- (vi) change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment.

(b) If at any time the Board shall desire to amend this Resolution under this Section, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the designated transfer office of the Registrar for inspection by all owners of Bonds. Such publication is not required, however, if notice in writing is sent to each registered owner of the Bonds, by United States mail, first class postage prepaid.

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

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

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

(f) For the purpose of this Section the ownership and other matters relating to all Bonds shall be determined from the Registration Books kept by the Registrar.

Section 7.04. ISSUANCE AND SALE OF BONDS. (a) The Authorized Representative is hereby authorized to act for and on behalf of the Board in connection with the issuance and sale of

the Bonds. In that capacity, the Authorized Representative, acting for and on behalf of the Board, shall determine the date for issuance and sale of the Bonds.

(b) The Bonds shall be sold by competitive bid at public sale. Prior to the date of public sale, the Authorized Representative, acting for and on behalf of the Board, shall cause (i) an appropriate notice of sale, in a form approved by the Authorized Representative, to be published at least one time in a financial publication, journal or report of general circulation among securities dealers in the City of New York (**including**, but not limited to, The Bond Buyer or The Wall Street Journal), or in the State of Texas (including, but not limited to, The Texas Bond Reporter), and (ii) a preliminary official statement, along with a notice of sale and bidding instructions and an official bid form, to be provided to each bidder, such documents to be in substantially the forms attached to this Resolution, which forms are hereby approved, but with such changes and completions as the Authorized Representative may approve, including such changes and completions to the preliminary official statement as the Authorized Representative may deem necessary or appropriate to enable the Authorized Representative, acting for and on behalf of the Board, to deem the preliminary official statement to be final as of its date, except for such omissions as are permitted by Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"). Each bidder shall be allowed to name the price for the Bonds and the rate or rates of interest to be borne by the Bonds: provided, that, (i) the price named for the Bonds must be no less than the par amount thereof (plus accrued interest from the date of the Bonds to the date of delivery thereof against payment therefor), and (ii) the interest rate or rates named for the Bonds must comply with Section 2.03. The Authorized Representative, acting for and on behalf of the Board, shall, subject to the right to reject any or all bids and to waive any irregularities, award the sale of the Bonds to the bidder whose bid produces the lowest true interest cost to the Board, such interest cost being the rate obtained by doubling the semi-annual interest rate (compounded **semi-annually**) necessary to discount the principal and interest payments on the Bonds from the dates of payment thereof to the dated date of the Bonds and to the price bid. The price bid for the purpose of the preceding sentence shall not include the amount of interest accrued on the Bonds from their date to the date of delivery thereof against payment therefor. Within seven business days after the award of the sale of the Bonds, the Authorized Representative, acting for and on behalf of the Board, shall cause a final official statement to be provided to the successful bidder in compliance with Rule 15c2-12.

(c) Following the award of the sale of the Bonds, the Authorized Representative shall notify the Paying Agent and Registrar in writing of the identity of the purchaser of the Bonds and of the following terms for the Bonds: dated date; date for issue; rate or rates of interest; and first Interest Payment Date. The Authorized Representative shall deliver the Initial Bonds to the purchaser thereof against payment therefor. Incident to the delivery of the Bonds, the Authorized Representative shall execute:

(i) a certificate to the effect that the principal of and interest on the Bonds are payable in full out of Pledged Revenues;

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

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

In addition, incident to the delivery of the Initial Bonds the Comptroller shall deliver a certificate to the effect that appropriations of money pursuant to article VII, section 17 of the Texas

Constitution, as amended, will provide sufficient Pledged Revenues to pay the principal of and interest on the Bonds.

Section 7.05. CONSTRUCTION ACCOUNT. (a) There is hereby established a separate account designated as "The University of Texas — Pan American Appropriation Construction Account" (the "Construction Account"). The Construction Account shall be maintained by the Board in an official depository of the System. Money on deposit or to be deposited in the Construction Account shall remain therein until from time to time expended for Project Costs of Eligible Projects, and shall not be used for any other purposes whatsoever, except as otherwise provided below. Pending the expenditure of money in the Construction Account, monies deposited therein or credited thereto may be invested at the direction of an Authorized Representative in the manner prescribed by law and in accordance with the written policies adopted by the Board. Any income received from investments in the Construction Account shall be retained in the Construction Account. Any amounts remaining in the Construction Account and not anticipated to be needed for the payment of Project Costs shall be transferred to the Interest and Sinking Fund.

(b) Concurrently with the issuance and delivery of the Bonds to the successful bidder against payment therefor, the proceeds of sale of the Bonds (other than accrued interest which shall be deposited into the Interest and Sinking Fund) shall be deposited into the Construction Account and used for the purposes set forth above.

Section 7.06. DTC LETTER OF REPRESENTATION. The Authorized Representative, acting for and on behalf of the Board, is hereby authorized and directed to approve, execute and deliver a Letter of Representation with DTC with respect to the Bonds to implement the book-entry only system of Bond registration, such approval to be conclusively evidenced by the Authorized Representative's execution thereof.

Section 7.07. FURTHER PROCEDURES. The Chairman of the Board, the Executive Secretary of the Board, the Authorized Representative, the Vice Chancellor and General Counsel of the System, and all other officers, employees, and agents of the Board, and each of them, shall be and they are hereby expressly authorized, empowered, and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge, and deliver in the name and under the seal and on behalf of the Board all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Resolution, the Bonds, the preliminary official statement, the official statement, the official notice of sale and the official bid form for the Bonds and the DTC Letter of Representation. In case any officer whose signature appears on any Bond shall cease to be such officer before the delivery of such Bond, such signature shall nevertheless be valid and sufficient for all purposes the same as if he or she had remained in office until such delivery.

ADOPTED AND APPROVED this the 9th day of November, 1995.

Chairman
Board of Regents of
The University of Texas System

Attest:

Executive Secretary
Board of Regents of
The University of Texas System

[SEAL]

NEW ISSUE-BOOK-ENTRY ONLY

RATINGS: (See "RATINGS")

In the opinion of Vinson & Elkins, L.L.P., Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law and the Bonds are not "private activity bonds." See "TAX, EXEMPTION" herein for a discussion of Bond Counsel's opinion, including a description of alternative minimum tax consequences for corporations.

\$26,000,000

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
CONSTITUTIONAL APPROPRIATION BONDS (SEAL)
(The University of Texas — Pan American)
Series. 1995**

Dated: December 1, 1995

Due: **As shown on the inside cover page**

Interest on the Bonds will accrue from December 1, 1995, and is payable on February 15 and August 15 of each year, commencing February 15, 1996, calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued only as fully registered bonds in the denominations of \$5,000 or any integral multiple thereof. The Depository Trust Company, New York, New York ("DTC"), initially will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical delivery of bond certificates except as described herein. Principal of the Bonds will be payable to the registered owners upon presentation and surrender thereof for payment at the designated payment office of the Paying Agent, initially the Treasurer of the State of Texas. Interest on the Bonds will be payable on each interest payment date, by check dated of such interest payment date, sent by the Paying Agent by United States mail, first-class postage prepaid, to the registered owners at the addresses as shown on the records of the Registrar for the Bonds, initially the Board of Regents (the "Board") of The University of Texas System (the "System"), as of the record date for the Bonds, or in such other manner as may be mutually acceptable to the Paying Agent and the registered owner. Notwithstanding, the foregoing, any payment to Cede & Co., as nominee of DTC, or its registered assigns, shall be made in accordance with existing arrangements between the Board and DTC. See "THE BONDS — Book-Entry Only System." Principal of and interest on the Bonds will be paid in lawful money of the United States of America.

The Bonds will mature on the dates and in the amounts and will bear interest at the rates per annum as follows:

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
		<u>%</u>	<u>%</u>			<u>%</u>	<u>%</u>
1996	\$2,330,000			2001	\$2,615,000		
1997	2,120,000			2002	2,735,000		
1998	2,300,000			2003	2,860,000		
1999	2,400,000			2004	2,995,000		
2000	2,505,000			2005	3,140,000		

(Plus Accrued Interest)

The Bonds (the "Bonds") are special obligations of the Board, payable solely from, and secured solely by a pledge of, up to 50% of the annual appropriation allocated to the Board for The University of Texas — Pan American ("Pledged Revenues") pursuant to Article VII, Section 17 of the Texas Constitution ("Article VII, Section 17") and Chapter 62, Texas Education Code, for each fiscal year starting with the fiscal year that began on September 1, 1995 and ending with the fiscal year that ends on August 31, 2005. Article VII, Section 17 provides that Pledged Revenues are appropriated out of the first money coming into the Treasury of the State of Texas each fiscal year not otherwise appropriated by the Texas Constitution. See "SECURITY AND SOURCE OF PAYMENT."

THE BONDS ARE NOT A GENERAL OBLIGATION OF THE BOARD, THE SYSTEM OR THE STATE OF TEXAS. OWNERS HAVE NO RIGHTS AGAINST ANY OTHER ENTITY OF THE STATE OF TEXAS NOR THE PHYSICAL PROPERTY PROVIDED BY THE BONDS NOR ANY FUNDS TO BE RAISED BY TAXATION EXCEPT THOSE APPROPRIATED FOR SUCH PURPOSE.

The Bonds are offered for delivery when, as and if issued and are subject to the approving legal opinions of the Attorney General of the State of Texas and Vinson & Elkins L.L.P., Houston and Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Board by its counsel, Rafael Quintanilla, Jr., Austin, Texas. See "LEGAL OPINIONS." It is expected that the Bonds will be available for delivery through the facilities of DTC.

**Delivery: Anticipated on or about _____ 1995
Sealed bids will be opened at 10:00 A.M., CST, _____ 1995**

Dated: _____ 1995

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

OFFICERS

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

MEMBERS

Terms Expire February 1, 1997

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

Terms Expire February 1, 1999

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

Terms Expire February **1, 2001**

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

SYSTEM ADMINISTRATION

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

CHIEF ADMINISTRATIVE OFFICERS OF
UNIVERSITY SYSTEM COMPONENT INSTITUTIONS

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

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

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

The information set forth in this Official Statement has been obtained from the Board, the System, and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Initial Purchaser or, as to information from other sources, by the Board. Any information and expressions of opinion contained in this Official Statement 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 System or other matters described herein since the date hereof.

IN CONNECTION WITH THIS OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE INITIAL PURCHASER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE INITIAL PURCHASER

TABLE OF CONTENTS

INTRODUCTION	1	Continuing Disclosure Undertaking of the State Comptroller	8
PLAN OF FINANCE	1	Availability of Information from NRMSIRs and SID	9
Authority for Issuance of the Bonds ..	1	Limitations and Amendments	9
Purpose	1	Compliance with Prior Undertakings	9
SOURCES AND USES OF FUNDS ..	2	LEGAL MATTERS	10
THE BONDS	2	TAX EXEMPTION	10
General Terms	2	LEGAL INVESTMENTS IN TEXAS	11
No Redemption	2	RATINGS	11
Method of Payment	2	UNDERWRITING	11
Book-Entry Only System	3	OFFICIAL STATEMENT	11
Paying Agent and Registrar	4	NO-LITIGATION CERTIFICATE	12
Amendment of Terms	5	REGISTRATION, SALE AND DISTRIBUTION	12
Defeasance	5	GENERAL INFORMATION	12
SECURITY AND SOURCE OF PAYMENT	6	APPENDICES	
Bonds are Special Obligations	6	APPENDIX A • State of Texas	
Amount of Constitutional Appropriation	6	APPENDIX B • Form of Bond Counsel's opinion	
Allocation to Pan American	6		
Appropriation Account; Bond Account; Interest and Sinking Fund	7		
Additional Parity Bonds and Notes ...	7		
CONTINUING DISCLOSURE OF INFORMATION	7		
Continuing Disclosure Undertaking of the Board	7		

SUMMARY STATEMENT

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. The offering of the Bonds described herein to potential investors is made only by means of this Official Statement, including the cover page and the appendices, and no person is authorized to detach this Summary Statement from this Official Statement or otherwise to use it without the entire Official Statement.

The Issuer	The Board of Regents (the "Board") of The University of Texas System.
The Bonds	\$26,000,000 Constitutional Appropriation Bonds (The University of Texas — Pan American), Series 1995, dated December 1, 1995.
General Terms	The Bonds will mature on August 15 of the years and in the principal amounts and will bear interest at the rates per annum as set forth on the cover page hereof. Interest on the Bonds, calculated on the basis of a 360-day year composed of twelve 30-day months, will accrue from their dated date and will be payable February, 15, 1996, and semiannually on each August 15 and February 15 thereafter. The Bonds will be issued in authorized denominations of \$5,000 or any integral multiple thereof.
No Redemption	The Bonds are not subject to redemption prior to maturity.
Method of Payment	Principal of the Bonds is payable, without exchange or collection charges, to the respective owners thereof upon presentation and surrender of the Bonds at maturity at the designated office for payment of the Paying Agent, initially the Treasurer of the State of Texas. Interest on the Bonds will be payable by the Paying Agent on each interest payment date, by check dated of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears on the first day of the same month as such interest payment date on the registration books kept by the Board, which is the initial Registrar for the Bonds. In addition, interest on the Bonds may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owner of the Bonds. Notwithstanding the foregoing, any payment to Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), or its registered assigns, shall be made in accordance with existing arrangements between the Board and DTC. See "THE BONDS — Book-Entry Only System." If the date for payment of principal of or interest on the Bonds 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 designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then such payment shall be made on the next succeeding date that is not a Saturday, Sunday, legal holiday, or a date on which such banking institutions are authorized to close with the same force and effect as if made on the original date payment was due.
Security and Source of Payment	The Bonds are special obligations of the Board payable solely from, and secured solely by a pledge of, up to 50% of the annual appropriation allocated to the Board for The University of Texas

— Pan American pursuant to Article VII, Section 17 of the Texas Constitution and Chapter 62, Texas Education Code, for each fiscal year starting with the fiscal year that began on September 1, 1995 and ending with the fiscal year that ends on August 31, 2005. See “SECURITY AND SOURCE OF PAYMENT.”

Book-Entry Only	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 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 interest on the Bonds will be payable by the Paying Agent 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 “THE BONDS — Book-Entry Only System.”
Use of Proceeds	Proceeds from the sale of the Bonds will be used to finance improvements in classrooms and facilities for The University of Texas — Pan American. Proceeds will also be used to pay the costs of issuance of the Bonds. See “SOURCES AND USES OF FUNDS.”
Bond Counsel	Vinson & Elkins L.L.P., Houston and Austin, Texas.

Official Statement

\$26,000,000

**BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM
CONSTITUTIONAL APPROPRIATION BONDS**

(The University of Texas — Pan American)
Series 1995

INTRODUCTION

This Official Statement, which includes the cover page and the Appendices hereto, provides certain information regarding the issuance by the Board of Regents (the "Board") of The University of Texas System (the "System") of the captioned bonds (the "Bonds") in the aggregate principal amount set forth above. The Bonds will be issued pursuant to a resolution (the "Resolution") adopted by the Board on November 9, 1995. The Bonds are being issued to finance improvements in classrooms and facilities for The University of Texas — Pan American ("Pan American") and to pay the costs of issuance of the Bonds.

The System currently consists of The University of Texas at Austin and the fourteen other state-supported institutions (including Pan American) listed on the inside cover page of this Official Statement. The Board is the governing body of the System. For the 1995 Fall Semester, the System had total preliminary enrollment of 149,823 students.

The Bonds **will** be issued pursuant to Article VII, Section 17 of the Texas Constitution ("Article VII, Section 17"), and Chapter 62, Texas Education Code (the "Act"), and will be payable solely from, and secured solely by a pledge of, Pledged Revenues (hereinafter defined), consisting generally of money allocated annually to the Board for Pan American, out of the total amount appropriated annually during a ten-year period by Article VII, Section 17 out of the **first** money coming into the Treasury of the State of Texas (the "State") and not otherwise appropriated by the State Constitution. See "SECURITY AND SOURCE OF PAYMENT." *APPENDIX A to this Official Statement contains selected information with respect to the State.*

This Official Statement contains summaries and descriptions of the Bonds and the Resolution. 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 the Resolution.

PLAN OF FINANCE

Authority for Issuance of the Bonds

The Bonds will be issued under the authority of Article VII, Section 17, the Act, Section 65.46, Texas Education Code, and Article 717k, Texas Revised Civil Statutes Annotated, all as amended, and pursuant to the terms of the Resolution and the action of the authorized representative of the Board awarding the sale of the Bonds to the Initial Purchaser (hereinafter defined) submitting the winning bid for the Bonds. See "UNDERWRITING."

Purpose

The Bonds will be issued to finance improvements in classroom and facilities for Pan American. Proceeds of the Bonds (other than accrued interest which shall be deposited in the Interest and Sinking Fund established under the Resolution) shall be deposited in a separate account established under the

Resolution and designated as “The University of Texas — Pan American Appropriation Construction Account” (the “Construction Account”). The Construction Account will be maintained by the Board in an official depository of the System. Money on deposit in the Construction Account may be used to pay eligible costs of the Pan American Project and the costs of issuance of the Bonds. See “SOURCES AND USES OF FUNDS.”

SOURCES AND USES OF FUNDS

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

Sources of Funds

Principal Amount of the Bonds
Premium from Initial Purchaser
Accrued Interest on the Bonds
Total Available Funds

Uses of Funds

Deposit to Construction Account
Deposit to Interest and Sinking Fund
Costs of Issuance of the Bonds
Total Application of Funds

THE BONDS

General Terms

The Bonds will be dated December 1, 1996 and will mature on August 15 of the years and in the principal amounts and will bear interest at the rates per annum as set forth on the cover page hereof. Interest on the Bonds, calculated on the basis of a **360-day year** composed of twelve **30-day** months, will accrue from their dated date and **will** be payable February **15, 1996**, and semiannually on each August 15 and February 15 thereafter. The Bonds will be issued in **authorized** denominations of \$5,000 or any integral multiple thereof. The Bonds are issuable only as fully registered bonds, without coupons, and 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 below. See “THE BONDS — **Book-Entry Only System.**”

No Redemption

The Bonds are not subject to redemption prior to maturity.

Method of Payment

Principal of the Bonds is payable, to the respective owners thereof upon presentation and surrender of the Bonds at maturity at the designated office for payment of the Paying Agent, initially the Treasurer of the State (the “State Treasurer”). Interest on the Bonds will be payable by the Paying Agent on each interest payment date, by check dated of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears on the first day of the same month (the “Record Date”) as such interest payment date on the registration books kept by the Board, which is the initial Registrar for the Bonds. In addition, interest on the Bonds may be paid by such other method acceptable to the Paying Agent requested by, at the risk and expense of, the respective registered owner of the Bonds. Notwithstanding the foregoing, any payment to Cede & Co., as nominee of DTC, or its registered assigns, shall be made in accordance with existing arrangements between the Board and DTC. If the date for payment of principal or interest on the Bonds 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 designated office for payment of the Paying Agent is located are authorized by law or executive order to close, then such payment shall be made on the next succeeding date that is not a Saturday, Sunday, legal holiday, or a date on which such banking institutions are authorized to close with the same force and effect as if made on the original date payment

was due. Principal of and interest on the Bonds are payable in lawful money of the United States of America, without exchange or collection charges.

Book-Entry Only System

Book-Entry Only System. DTC 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 the-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, the Registrar or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Board, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

The information concerning DTC and the book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Board.

In reading this Official Statement it should be understood that while the Bonds are in the book-entry only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Master Resolution and Supplemental Resolution will be given only to **DTC**.

Effect of Termination of Book-Entry Only System. In the event that the book-entry only system is discontinued by DTC or the Board, the following provisions will be applicable to the Bonds: Bonds may be exchanged for an equal aggregate principal amount of Bonds in authorized denominations and of the same maturity upon surrender **thereof at** the designated office for transfer of the Registrar with a duly executed assignment in form satisfactory to the Registrar. The transfer of any Bond may be registered on the books maintained by the Registrar for such purpose only upon the surrender of such Bond to the Registrar with a duly executed assignment in form satisfactory to the Registrar. For every exchange or transfer of registration of Bonds, the Registrar (and the Board, if at the time of such exchange or transfer the Board is not then acting as the Registrar) 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 Registrar for the transfer or exchange. The Registrar will not be required to transfer or exchange any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next interest payment date. The Board and the Registrar may treat the person in whose name a Bond is registered as the absolute owner thereof for all purposes, whether such Bond is overdue or not, including for the purpose of receiving payment of, or on account of, the principal of, and interest on, such Bond.

Paying Agent and Registrar

The Board is the initial Registrar for the Bonds and the State Treasurer is the initial Paying Agent. In the Resolution, the Board reserves the right to replace the Paying Agent and Registrar and covenants to maintain a Paying Agent and Registrar at all times while the Bonds are outstanding. The Board further covenants and agrees that the Paying Agent and Registrar shall be one entity, except that during any period in which DTC is serving as securities depository for all the Bonds, the State Treasurer may be the Paying Agent and the Board may be the Registrar. Any successor Paying Agent and Registrar is required by the Resolution to be a competent and legally qualified bank, trust company, financial institution or other agency. Upon any change in the Paying Agent or Registrar, the Board is required promptly to cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which shall also give the address of the new Paying Agent or Registrar.

Amendment of Terms

The owners of Bonds aggregating 51% of the aggregate principal amount of the then outstanding Bonds have the right under the Resolution to approve any amendment to the Resolution that may be deemed necessary or desirable by the Board; provided, however, that the owners of all of the outstanding Bonds must approve any amendment so as to (a) make any change in the maturity of the **outstanding** Bonds; (b) reduce the rate of interest borne by any of the outstanding Bonds; (c) reduce the amount of the principal payable on the outstanding Bonds; (d) modify the terms of payment of principal of or interest on the outstanding Bonds, or impose any conditions with respect to such payment; (e) affect the rights of the owners of less than all of the Bonds then outstanding; or **(f)** change the minimum percentage of the principal amount of Bonds necessary for consent to such amendment.

If at any time the Board shall desire to amend the Resolution, the Board shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in the City of New York, New York once during each calendar week for at least **two** successive calendar weeks. Such notice shall set forth briefly the nature of the proposed amendment and shall state that a copy thereof is on file at the designated transfer office of the Registrar for inspection by all owners of Bonds. Such publication is not required, however, if notice in writing is sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

Defeasance

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

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

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

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

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

SECURITY AND SOURCE OF PAYMENT

Bonds are Special Obligations

The Bonds are special obligations of the Board payable solely from, and secured solely by a pledge of, Pledged Revenues. **THE BONDS ARE NOT A GENERAL OBLIGATION OF THE BOARD, THE SYSTEM OR THE STATE OF TEXAS. OWNERS HAVE NO RIGHTS AGAINST ANY OTHER ENTITY OF THE STATE OF TEXAS NOR THE PHYSICAL PROPERTY PROVIDED BY THE BONDS NOR ANY FUNDS TO BE RAISED BY TAXATION EXCEPT THOSE APPROPRIATED FOR SUCH PURPOSE.** Pledged Revenues consist of up to 50% of the money allocated annually to the Board for Pan American from the total amount appropriated annually by Article VII, Section 17, out of the first money coming into the **State Treasury** not otherwise appropriated by the State Constitution, during a ten-year period starting with the fiscal year that began on September 1, 1995 and ending with the fiscal year that ends on August 31, 2005. *APPENDZX A to this Official Statement contains selected information with respect to the State.*

Amount of Constitutional Appropriation

Article VII, Section 17 provides for an appropriation during each fiscal year of \$100 million to be used by certain agencies and institutions of higher education (including Pan American) for eligible purposes. Article VII, Section 17 also provides that the amount appropriated thereunder is out of the first money coming into the State Treasury not otherwise appropriated by the State Constitution. During the 1993 legislative session, the State Legislature increased the amount of the annual constitutional appropriation under Article VII, Section 17 from \$100 million to \$175 million for a five-year period beginning September 1, 1995. The State Legislature acted under the authority of subsection (a) of Article VII, Section 17, which authorizes the State Legislature to increase the amount of the appropriation for a five-year period as long as the adjustment does not impair any obligation created by the issuance of bonds or notes. The State Attorney General gave its opinion that the law increasing the annual constitutional appropriation to \$175 million was validly enacted. Additionally, in its 1995 legislative session, the State Legislature passed House Bill No. 2462 ("H.B. 2462") validating the \$175 million appropriation.

The State Legislature **must act** again in 1999 to increase the annual constitutional appropriation over \$100 million for another five-year period. However, the State Legislature may not adjust the appropriation so as to impair any obligations issued under the authority of Article VII, Section 17, including the Bonds. In no event will the annual constitutional appropriation fall below \$100 million without a constitutional amendment.

Allocation to Pan American

During its 1995 legislative session and based on a recommendation of the Texas Higher Education Coordinating Board ("THECB"), the State Legislature amended the Act to provide an annual allocation of **\$10,174,500** for Pan American and The University of Texas at Brownsville ("Brownsville") out of the \$175 million annual constitutional appropriation. Of the total amount so allocated annually for Pan American and Brownsville, **\$8,613,041** was further allocated to Pan American.

The Act requires the THECB to conduct a study prior to the commencement of the regular session of the State Legislature in 1999 as to whether the allocation formula should be adjusted for the five-year period beginning September 1, 2000. The State Legislature is required to approve, modify and approve, or reject the recommendations of the THECB. The Act provides that if, prior to September 1, 2000, the State Legislature has failed to act on a recommendation for adjustment in the allocation formula, then the formula adopted in 1995 shall continue until the end of the ten-year period ending on August 31, 2005. However, no adjustment to the allocation is allowed that would prevent the payment of outstanding bonds or notes issued under the authority of Article VII, Section 17, including the Bonds.

The Comptroller of Public Accounts of the State of Texas (the "State Comptroller") is required by the Act to distribute funds **allocated** under Article VII, Section 17 only on presentation of a claim **and** issuance of a warrant in accordance with Section 403.071, Texas Government Code. The Board has covenanted in its Resolution to comply with such statutory procedures and cause the State Comptroller

to transfer directly to the Paying Agent amounts necessary for payment of the principal of and interest on the Bonds.

Appropriation Account: Bond Account; Interest and Sinking Fund

The Board has caused to be established in the State Treasury separate accounts known as “The University of Texas — Pan American Constitutional Appropriation Account” (the “Appropriation Account”) and “The University of Texas — Pan American HEAF Debt Service Account” (the “Bond Account”). The Resolution provides that as received in the State Treasury, the money appropriated by Article VII, Section 17 for Pan American will be deposited and credited to the Appropriation Account. Further, the Resolution provides that as received into the Appropriation Account, up to 50% of the amount allocated to Pan American will be credited to the Bond Account in such amounts as are necessary to pay debt service on the Bonds for the current fiscal year. The Board covenants and agrees in the Resolution that prior to an interest payment date it will submit a payment voucher, or other claim in form acceptable to the State Comptroller (with a copy to the State Treasurer), for money in the Bond Account necessary to pay the principal of **and** interest on the Bonds on such interest payment date. Upon receipt of such voucher or claim, the State Comptroller is required to draw all necessary and proper warrants against the Bond Account to the end that money will be available at the Paying Agent in ample time to pay the principal of and interest on the Bonds when due. Each such **warrant** will be made payable to the Paying Agent for deposit to a separate and special fund called “The University of Texas — Pan American Constitutional Appropriation Bonds — Interest and Sinking Fund (Series 1995)” (the “Interest and Sinking Fund”), which the Resolution creates and establishes with the Paying Agent. Upon receipt of such warrant, the Paying Agent is required to give notice to the Board by first-class mail, postage prepaid (or by other means acceptable to the Board and the Paying Agent) that such warrant has been received. If the Board fails to receive any such notice prior to an interest payment date, the Board is required to notify the State Comptroller of such failure and to take such measures as may be necessary to cause the State Comptroller to make the required payment to the Paying Agent., The Interest and Sinking Fund may only be used to pay the principal of and interest on the Bon& when due, provided that, except for amounts retained to pay the principal of and interest on any Bonds, when no Bonds remain outstanding and the Paying Agent’s expenses have been paid, any amounts remaining in the Interest and Sinking Fund are payable to the Board.

Additional Parity Bonds and Notes

In the Resolution, the **Board** reserved the right to issue additional bonds and notes on a parity with the Bonds, provided that, as a condition precedent to the issuance of any such additional parity bonds and notes, the State Comptroller is required to execute a certificate stating that appropriations of money pursuant to Article VII, Section 17 will provide sufficient Pledged Revenues to pay the principal of and interest on the Bonds and the additional parity bonds and notes that will be outstanding after the additional parity bonds and notes then being issued.

CONTINUING DISCLOSURE OF INFORMATION

Continuing Disclosure Undertaking of the Board

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

Annual Reports. **The** Bonds are payable solely from, and secured solely by a pledge of, Pledged Revenues, consisting generally of money allocated annually to the Board for Pan American, out of the total amount appropriated annually during a ten-year period by Article VII, Section 17 out of the first money coming into the State Treasury and not otherwise appropriated by the State Constitution. See “SECURITY AND SOURCE OF PAYMENT.” Accordingly, this Official Statement does not include financial information and operating data with respect to the Board, the System or Pan American and the Board has not agreed to provide annual updates of any ‘financial information or operating data to any information vendors. The State Comptroller has agreed, however, that it will provide certain updated

financial information and operating data to certain information vendors annually. See "— Continuing Disclosure Undertaking of the State Comptroller — Annual Reports" below.

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 enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds nor the Resolution make any provision for debt service reserves, credit enhancement, liquidity enhancement or Bond calls through redemption.) The Board will provide each notice described in this paragraph to any state information depository ("SID") that is designated by the State and approved by the staff of the United States Securities and Exchange Commission ("SEC") and to either each nationally recognized municipal securities information repository ("NRMSIR") or the Municipal Securities Rulemaking Board ("MSRB").

Continuing Disclosure Undertaking of the State Comptroller.

General. The State Comptroller currently provides and intends to continue to provide current information concerning the financial condition of State government, and the State Comptroller has agreed for the benefit of the holders of the Bonds to provide certain updated information and notices while the Bonds remain outstanding. The Board and the legal and beneficial owners of the Bonds are third-party beneficiaries of the State Comptroller's agreement. The State Comptroller is required to observe his agreement for so long as the Bonds may be paid from money drawn on the State's General Revenue Funds. Under the agreement, the State Comptroller will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

In addition to the information that the State Comptroller has agreed to provide annually as described below, the State Comptroller currently prepares an updated disclosure appendix quarterly for use in State agency securities offerings. This disclosure appendix appears herein as Appendix A. The State Comptroller intends to continue to prepare or supplement such an appendix quarterly and to provide each such update or supplement to the information vendors to whom the State Comptroller must provide annual information in accordance with his disclosure agreement. In addition, the State Comptroller publishes, and intends to continue to publish, a monthly publication, *Fiscal Notes*, which includes key economic indicators for the State's economy as well as monthly statements of cash condition, revenues, and expenses for State government funds on a combined basis. Bondholders may subscribe to *Fiscal Notes* by writing to Fiscal Notes, Comptroller of Public Accounts, P.O. Box 13528, Austin, Texas 78711-3528. Information about State government may also be obtained by contacting the State Comptroller's BBS *Window on State Government* via the Internet at window.cpa.state.tx.us or via Worldwide Web at www.window.state.tx.us or by calling 1-800-227-8392.

Annual Reports. The State Comptroller will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the State of the general type included in Appendix A to this Official Statement in Tables A-1 through A-14 and A-31 (however, only actual tax collection and revenues in Table A-10 will be updated) and under the headings "EDUCATION" and "RETIREMENT SYSTEMS." The State Comptroller will update and provide this information within 195 days after the end of each fiscal year ending in or after 1996. The State Comptroller will provide the updated information to each NRMSIR and to any SID that is designated by the State and approved by the staff of the SEC.

The State Comptroller may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information provided by the State Comptroller will be provided on a cash basis and will not be audited, but the State Comptroller will provide audited financial statements of the State prepared in accordance with generally accepted accounting principles for governmental entities when the State Auditor completes

its statutorily required audit of such financial statements. The accounting principles pursuant to which such financial statements must be prepared may be changed from time to time to comply with State law.

The State's current fiscal year end is August 31. Accordingly, it must provide updated information by March 13 (March 12 in leap years) in each year unless the State changes its fiscal year. If the State changes its fiscal year, the State Comptroller will notify each NRMSIR and any SID of the change.

Material Event Notices. The State Comptroller will also provide timely notice of any failure by the State Comptroller to provide information, data, or financial statements in accordance with its agreement described above under "Continuing Disclosure Undertaking of the State Comptroller-Annual Reports." Each notice described in this paragraph will be provided to any SID and to either each NRMSIR or the MSRB.

Availability of Information from NRMSIRs and SID

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

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and recognized by the SEC as a qualified SID. The address of the Municipal Advisory Council 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 and the State Comptroller have agreed to update **information** and to provide notices of material events only as described above. Neither has agreed to **provide** other information that may be relevant or material to a complete presentation of the Board's or the State's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. Each disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of such person's continuing disclosure agreement or from any statement made pursuant to such person's agreement, although holders of Bonds may seek a writ of mandamus to compel the Board and the State Comptroller to comply with their agreements.

The Board and the State Comptroller **may** amend their continuing disclosure agreements to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Board or the State 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, the State Comptroller and the State (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. If the Board so amends its agreement, it will provide notice of such amendment to any SID and to either each NRMSIR or the MSRB, in a timely manner, including an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the notices to be so provided. If **the** State Comptroller so amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Continuing Disclosure Undertaking of the State Comptroller — Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five years, neither the Board, nor the State Comptroller has failed to comply in any material respect with any continuing disclosure agreement made by such person in accordance with SEC Rule 15c2-12, although neither entered into such an agreement before August 1995.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to approval of legality by the Attorney General of the State and of certain legal matters by Vinson & Elkins L.L.P., Austin and Houston, Texas, Bond Counsel to the Board. Attached hereto as APPENDIX B is the form of opinion that Bond Counsel will render in connection with the issuance of the Bonds. Bond Counsel has reviewed the information in this Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCE," "THE BONDS," "SECURITY AND SOURCE OF PAYMENT," "CONTINUING DISCLOSURE OF INFORMATION," "LEGAL MATTERS," "TAX EXEMPTION" and "LEGAL INVESTMENTS IN TEXAS," except -for financial or statistical information contained under any of such captions, and such fiim is of the opinion that the information contained under such captions is a fair and accurate summary of the information purported to be shown. Certain legal matters will be passed upon for the Board by Rafael Quintanilla, Jr., Special Counsel to the Board. The payment of legal fees to Bond Counsel and Special Counsel in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

TAX EXEMPTION

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

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

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

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

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

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and

property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their **effectively-**connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

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

LEGAL INVESTMENTS IN TEXAS

Pursuant to Article **717k-6**, Texas Revised Civil Statutes Annotated, as amended, the Bonds are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, 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 or any political subdivision or public agency of the State, and are lawful and sufficient security for those deposits to the extent of their market value. 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.

RATINGS

Fitch Investor Service, Inc. and Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc. have assigned ratings of ___ and ___, respectively, to the Bonds. An explanation of the significance of each such rating may be **obtained** from the company furnishing the rating. The ratings will reflect only the views of such organizations at the time such ratings are given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of either rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds were sold to (the “Initial Purchaser”) by competitive bid at public sale at a price of par plus a premium of \$ _____ plus accrued interest to the date of delivery of the Bonds. The public offering prices for the Bonds shown on the cover page to this Official Statement have been furnished by the Initial Purchaser. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Initial Purchaser.

OFFICIAL STATEMENT

At the time of delivery of the Bonds, the representatives of the Initial Purchaser of the Bonds will receive a certificate dated the date of delivery of the Bonds to the Initial Purchaser, signed on behalf of the Board by an appropriate Board official acting solely in an official capacity, substantially to the effect that to the best of such official’s knowledge and belief, as of the date of the delivery of the Bonds to the Initial Purchaser, the Official Statement, as then supplemented or amended, does not contain an untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In delivering such certificate, the official executing the certificate may rely in part on an examination relating to matters within such official’s own area of responsibility, and discussion with, or certificates or

correspondence signed by, certain other officials, employees, consultants and representatives of the **Board** or the State. Further, to the extent such certificate relates to APPENDIX A hereto, the official executing the certificate may rely, without further investigation, on the letter signed on behalf of the State by the State Comptroller and discussed in the next paragraph.

At the time of payment for and delivery of the Bonds, the Board will be furnished with a letter from the State, signed on behalf of the State by the State Comptroller, upon which the Initial Purchaser will be authorized to rely, to the effect that (a) the statements and data appearing in the financial information shown in APPENDIX A hereto did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and have been obtained from sources which he believes to be reliable and (b) the State Comptroller has entered into a continuing disclosure agreement with the Texas Bond Review Board, for the benefit of the Board and the legal and beneficial owners of the Bonds, to provide, with respect to the State, updated financial information and operating data of the type included in APPENDIX A hereto and timely notice of certain material events. See "CONTINUING DISCLOSURE OF INFORMATION — Continuing Disclosure Undertaking of the State Comptroller."

NO-LITIGATION CERTIFICATE

The Vice Chancellor and General Counsel to the Board will execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery of the Bonds to the effect that no litigation has been filed or is then pending to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for payment of the principal of and interest on the Bonds or in any manner questioning the validity of the Bonds.

REGISTRATION, SALE AND DISTRIBUTION

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.

GENERAL INFORMATION

The description herein of the Bonds and the Resolution do not purport to be complete, and all such descriptions or references thereto are qualified in their entirety by reference to the complete form of the Resolution. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will **approximate** actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances or other documents do not purport to be complete statements of same and are made subject to all provisions thereof. Reference should be made to such original sources in all respects.

BOARD OF REGENTS OF
THE UNIVERSITY OF TEXAS SYSTEM

By _____
Assistant Vice Chancellor for Finance
The University of Texas System

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

The State of Texas

TABLE OF CONTENTS

	Page
State Government.....	A-1
Fiscal Matters	A-3
State Revenues and Expenditures	A-8
State Debt.....	A-22
Economic Information.....	A-27
Demographic Information.....	A-4 I
Education.....	A-42
Retirement Systems	A-45
Litigation	A-47

The following information is designed to provide a general description of the State of Texas (the "State") and its finances and is not intended to be exhaustive. Except where otherwise indicated, all financial and related information has been provided by the State from its official records. Historical data and trends presented below are not intended to predict future events or continuing trends, and no representation is made that past experience will continue in the future. Except for the information presented below which has been provided by state agencies and officials, the State has made no attempt to verify the accuracy or completeness of such information, and no representation is made by the State as to accuracy or completeness of the information set forth below or the absence of material adverse changes subsequent to the date of this Official Statement. As a result of rounding, certain tables set forth below may contain immaterial inaccuracies.

STATE GOVERNMENT

Organization

The State was admitted to the Union as the 28th state on December 29, 1845, approximately nine years after its secession from the Republic of Mexico in 1836. The current Constitution of the State of Texas (the "Constitution") was adopted in 1876, succeeding earlier Constitutions of 1845, 1861, 1866 and 1869.

Division of Powers

The Constitution divides the powers of the government of the State into three distinct departments: the legislative, the executive and the judicial. Under the terms of the Constitution, no person in any one department may exercise any power attached to another department unless specifically authorized to do so by the Constitution.

The Legislative Department

The legislative power of the State is vested in a House of Representatives and a Senate, which together constitute the Legislature of the State. The House of Representatives consists of 150 members who are elected for terms of two years each, and the Senate consists of 31 members who are elected for four year terms. After senatorial redistricting which occurs every 10 years, each member must run for re-election. At that time the members must draw lots, with 15 Senators to serve two-year terms and 16 Senators to serve four-year terms. Proceedings in the House of Representatives are presided over by the Speaker of the House, who is selected by the members of the House of Representatives from among their ranks, and proceedings in the Senate are presided over by the Lieutenant Governor, who is elected by a statewide vote, as described under the caption "Executive Department," below, or in his absence, the President pro tempore of the Senate, who is selected by the members of the Senate from among their ranks.

Regular sessions of the Legislature are held every two years in odd numbered years and may not exceed 140 days in duration. Special sessions of the Legislature may be convened by the Governor at any time. A special session of the Legislature may not exceed 30 days in duration and may address only those subjects designated by the Governor.

The Executive Department

The Executive Department of the State is composed of the Governor, the Lieutenant Governor, the Secretary of State, the Comptroller of Public Accounts, the Treasurer, the Commissioner of the General Land Office and the Attorney General, all of whom are elected except the Secretary of State. There are other elected state officials, including the Commissioner of the Department of Agriculture and the three Commissioners of the Railroad Commission (which has regulatory jurisdiction over certain public utilities, transportation and the oil and gas industry).

The Governor is elected for a term of four years and is eligible to seek re-election for an unlimited number of terms. The Constitution requires the Governor to cause the laws of the State to be faithfully executed and to conduct all intercourse and business of the State with other states and the United States. The Constitution also requires the Governor to present a message on the condition of the State to the Legislature at the commencement of each session of the Legislature and at the end of his term in office, and to recommend to the Legislature such measures as he deems expedient. The Governor has the power to veto any bill or concurrent resolution passed by the Legislature

and to veto specific items in appropriation bills, but the Legislature may override any veto, including a line item veto of an appropriation, by a two-thirds vote. If the Governor becomes disabled, he is succeeded in office by the Lieutenant Governor, who continues as Governor until the next general election. The current Governor is George W. Bush who began his four-year term in January 1995.

The *Lieutenant Governor* is elected for a four-year term and is eligible to seek re-election for an unlimited number of terms. The Governor and the Lieutenant Governor are elected separately and may be members of different political parties. The Lieutenant Governor is the President of the Senate and is empowered to cast the deciding vote in the event the Senate is equally divided on any question. The Lieutenant Governor also performs the duties of the Governor during any period that the Governor is unable or refuses to do so or is absent from the State. If the office of the Lieutenant Governor becomes vacant, a successor is elected by the members of the Senate from their ranks. Until a successor is elected, or if the Lieutenant Governor is absent or temporarily unable to act, the duties of the Lieutenant Governor are performed by the President pro tempore of the Senate. The current Lieutenant Governor is Bob Bullock who began his second four-year term in January 1995.

The *Comptroller of Public Accounts* is elected for a term of four years and is the chief accounting officer of the State. The Comptroller is generally responsible for maintaining the accounting records of the State and collecting taxes and other revenues due to the State, although other state officials share responsibility for both of these functions. The Comptroller is required by statute to prepare an annual statement of the funds of the State and of the State's revenues and expenditures for the preceding fiscal year. In addition, the Constitution requires the Comptroller to submit to the Governor and the Legislature, at the commencement of each regular session of the Legislature, an itemized estimate of the anticipated revenues that will be received by the State during the succeeding biennium based upon existing laws. The Constitution also requires the Comptroller to submit supplemental statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. The State Constitution also requires the Comptroller to certify that any appropriations bill passed by the Legislature falls within available revenues before the bill goes to the Governor for his signature. The current Comptroller is John Sharp who began his second four-year term in January 1995.

The *Treasurer* is elected for a term of four years. The Treasurer is the State's cash manager, and, as such, is responsible for holding and investing all state monies with the exception of certain funds that may be held by individual state agencies. The Treasurer is trustee for funds held in the Treasury as well as designated funds outside the Treasury. In addition, the Treasurer is custodian of securities held on behalf of state agencies and on behalf of retirement systems which have independent investment authority. The Treasurer also administers the State's unclaimed property laws and is responsible for the collection of cigarette and tobacco taxes for the state. The Treasurer is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company. The Trust Company allows the State to avail itself directly of Federal Reserve services. The current Treasurer is Martha Whitehead who was appointed by the Governor and sworn into office on July 6, 1993, to fill the unexpired term of Kay Bailey Hutchison who was elected to the U.S. Senate on June 5, 1993. Treasurer Whitehead was elected in 1994 and began a four-year term in January 1995. In May 1995, legislation was passed to abolish the office of the State Treasurer and to merge the treasury functions with the Comptroller of Public Accounts. On November 7, 1995, the citizens of Texas will vote on a constitutional amendment to abolish the office of the Treasurer, effective September 1, 1996.

The *Commissioner of the General Land Office* is elected for a term of four years. The Commissioner of the General Land Office is generally responsible for administering the public lands owned by the State. The Commissioner of the General Land Office serves as the chairman of the School Land Board, which has authority over the sale and lease of state owned lands, and as chairman of the Veterans' Land Board. The Commissioner of the General Land Office also serves as the chairman of boards that control the exploration for oil, gas and other minerals on state lands. The current Commissioner of the General Land Office is Garry Mauro, who was first elected in 1982 and began his present four-year term in January 1995.

The *Attorney General* is elected for a term of four years and is the chief legal officer of the State. The Attorney General is required to prosecute and defend all actions in the Supreme Court or the Courts of Appeals in which the State may be interested. The Attorney General also is required, upon request, to advise the Governor, the head of any department of the state government and certain other state and county officials upon any question touching the public interest or concerning their official duties. The Attorney General is the exclusive representative of state agencies, and other attorneys may be retained only if the Attorney General is unable to provide the specific service in question. The current Attorney General is Dan Morales who began his second four-year term in January 1995.

The *Secretary of State* is appointed by the Governor, with the advice and consent of the Senate, and serves during the term of service of the Governor by whom he or she is appointed. The Secretary of State is required to maintain official records of all laws and all official acts of the Governor and to perform such other duties as are required by law. The Legislature has made the Secretary of State generally responsible for supervision of elections and corporate and other similar filings. The current Secretary of State is Tony Garza, who was appointed by Governor Bush in January 1995.

The Judicial Department

The judicial power of the State is vested in a Supreme Court, a Court of Criminal Appeals, 14 courts of appeals, numerous district courts and various lower courts. The Supreme Court is the appellate court of last resort in all cases except criminal matters and, in addition, has original jurisdiction over actions for mandamus against state officials and certain other matters. The Court of Criminal Appeals has final appellate jurisdiction over all criminal matters. The courts of appeals are intermediate level appellate courts and have jurisdiction over both civil and criminal cases. The justices and judges of all courts in the State are elected. Terms of office are six years in the case of the members of the Supreme Court, the Court of Criminal Appeals and the courts of appeals, and are four years for judges of lower courts.

FISCAL MATTERS

Accounting System

The State operates on a fiscal year basis which begins on September 1 and ends on August 31. The State's appropriation period is a biennium covering two fiscal years.

During the 1987 session, the Legislature imposed uniform accounting and financial reporting procedures on all state agencies and provided that accounting for state agencies be in accordance with generally accepted accounting principles ("GAAP"). Sections 2101.012 through 2101.014, Government Code, require the Comptroller, with the review of the State Auditor, to prescribe uniform accounting and financial procedures. The Comptroller is also required by §403.013, Government Code, to prepare a report to the Governor containing financial information of all state agencies prepared in accordance with GAAP. This report is due annually on the last day of February and is in addition to the cash report due annually on the first Monday in November, which contains a statement of state funds and accounts, revenues and expenditures during the preceding fiscal year on a cash basis. A Comprehensive Annual Financial Report was produced for the first time in 1990 and will continually be used for the February report cited. The 1990, 1991, 1992 and 1993 reports all received the "Certificate of Achievement for Excellence in Financial Reporting" awarded by the Government Finance Officers Association.

The State is required by law to maintain its accounting and reporting on a cash basis, under which revenues are recorded when received and expenditures are recognized as disbursements when made. However, implementation of the Uniform Statewide Accounting System (USAS) on September 1, 1993, provided the ability for state agencies to maintain the state accounting system on a modified accrual basis in accordance with GAAP, as well as on a cash basis.

The State's central accounting system, USAS, records financial information both on a cash basis and under GAAP. USAS is the primary source of fiscal control and financial information for the State. Some agencies utilize USAS as their internal accounting system, while others are required to reconcile internal accounting records and record the information in the state system via reporting requirements.

Appropriations and Budgeting

The Constitution requires an appropriation for any funds to be drawn out of the Treasury. Certain appropriations are made by the Constitution and do not require further legislative action, although the Legislature frequently makes a parallel appropriation. All other appropriations must be made through a bill passed by the Legislature and approved by the Governor or passed by the Legislature over the Governor's veto. Legislative appropriations are limited by the Constitution to a period of two years. Generally, appropriations are made by the Legislature separately for each fiscal year of the biennium, but an appropriation can be made for the biennium or for a part of the biennium other than a fis-

cal year. Claims must be filed against an appropriation within two years after the end of the fiscal year for which the appropriation is made. except for construction appropriations, against which claims may be made for up to four years.

Article III, section 49a of the Constitution, the so-called "pay-as-you-go" provision, provides that an appropriation from any fund other than the General Revenue Fund is not valid if it exceeds the amount of cash and estimated revenues of the fund from which such appropriation is to be paid. The Constitution requires the Comptroller of Public Accounts to submit to the Governor and the **Legislature**, at the commencement of each regular session of the Legislature, a statement that contains, among other **things**, an itemized estimate of anticipated revenues, based on laws then in effect. that will be **received** by the State during the succeeding biennium. The Constitution also requires the Comptroller of Public Accounts to submit supplementary statements at any special session of the Legislature and at such other times as may be necessary to show probable changes. No appropriations bill passed by the Legislature may be sent to the Governor for consideration until the Comptroller **of** Public Accounts has certified that the amounts appropriated are within the amounts estimated to be available in the affected funds.

Budgeting for the State is handled through the Governor's Budget **Office** and the Legislative Budget Board. By statute, the Governor has been made the chief budget officer of the State, which is **a** function carried out by staff members who constitute the Governor's Budget Office. The Legislature has its own budget agency in the Legislative Budget Board. The Governor's Budget Office and the Legislative Budget Board **generally cooperate** with respect to matters pertaining to preparation of budgets and prepare uniform instructions and forms for budget requests. The Governor and the Legislative Budget Board each make separate submissions to **the Legislature—the** Governor's usually in the form of a budget proposal and the Legislative Budget Board's in the form of a draft appropriations bill to be submitted for consideration by the Legislature. The Governor is authorized by statute to submit a draft appropriations bill, or the bill may be introduced in the Legislature along with the bill prepared by the Legislative Budget Board.

In an effort to improve the budgeting process, a new performance based budget preparation process which appropriates funds at the strategy level was implemented and utilized to prepare proposed budgets for the **1994-95** biennium. Agency budgets are tied to **goals** and objectives which include strategies to meet these goals and objectives with measurable outputs and **efficiencies**. The new system provides the state's decision **makers** with enhanced knowledge to maximize state funds.

Legislative Budget Board

The Legislative Budget Board is composed of the Lieutenant Governor, the Speaker of the House of Representatives, four members of the House of Representatives (including the chairmen of the House Appropriations Committee and the House Ways and **Means** Committee) and four members of the Senate (including the chairmen of the Senate Finance Committee and the Senate State Affairs Committee). The traditional role of the Legislative Budget Board has been to **formulate** a proposed budget for presentation to the Legislature as discussed under "Appropriations and Budgeting," above. In recent years, however, the role of the Legislative Budget Board has been expanded by statute and by practice, and it now frequently carries out quasi-legislative functions relating to state finances when the Legislature is not in session.

Non-legislative Powers with Respect to Appropriations

The **Governor** is authorized by statute to make findings of any fact specified by the Legislature in any **appropriations** bill as a contingency to the expenditure of funds. Accordingly, the Governor has some minimal discretion to prevent the expenditure of funds, exercisable in situations in which an appropriation made by the Legislature is conditioned upon the occurrence of a given event or the existence of **a given fact**.

The Legislature has provided a means of dealing with fiscal emergencies under which the Governor is empowered to authorize expenditures from a general appropriation made by the Legislature specifically for emergencies. The Legislature is not obligated to appropriate any amount for such purpose, but customarily does so. The Governor may not authorize the expenditure of the emergency funds unless a certification is made to the Comptroller of Public Accounts that an **emergency** and imperative public necessity requiring the use of such funds exists and the Comptroller of Public Accounts determines that no other funds are available for such purpose. Any expenditure so authorized by the Governor may only **be** used in those instances in which no other funds are available for purposes specifically appropriated by the Legislature **duc** to exhaustion of appropriations.

The Legislature, in the second called session held during the Summer of 1987, enacted a budget execution law which gave the Governor, subject to the review of the Legislative Budget Board, the ability to make changes in legislative appropriations during periods when the Legislature is not in session. The statute was amended in 1991, giving both the Governor and the Legislative Budget Board (LBB) the authority to make proposals which require that a state agency be prohibited from spending an appropriation, which require that an agency be obligated to expend an appropriation, or which affect the manner in which part or all of an appropriation made by the Legislature to an agency may be distributed or redistributed. In addition, the Governor or LBB, upon making a determination that an emergency exists, may propose that an appropriation made to a state agency be transferred to another agency, that an appropriation be retained by the agency but used for a different purpose or that the time when an appropriation be made available to a state agency be changed. Funds which are dedicated by the Constitution may be withheld upon the Governor's or LBB's proposal, but may not be transferred to other state agencies except an agency which is entitled to receive appropriations from those funds under the terms of the Constitution. Federal funds appropriated by the Legislature may be transferred only as permitted by federal law. The Governor's or LBB's use of the budget execution provision is subject to publication and, in certain instances, public hearing requirements. In addition, before the Governor's proposal may be executed, it must be ratified by action of the LBB or if proposed by the LBB, the proposal must be ratified by the Governor. During the LBB's ratification process, the proposal may be changed and ratified or rejected or recommendations for changes in the proposal may be made. The affirmative vote of a majority of the members of the LBB from each house of the Legislature is necessary for the adoption of any budget execution order.

Except under the circumstances described in preceding paragraphs, appropriations or adjustments of appropriations may be authorized only by the Legislature.

Interfund Borrowing

By statute, the Comptroller of Public Accounts is authorized, with the consent of the Treasurer, to make interfund transfers of surplus cash, excluding constitutionally dedicated revenues, between funds in the Treasury in order to avoid temporary cash deficiencies in the General Revenue Fund. This procedure effectively allows the Comptroller of Public Accounts to borrow against cash balances held in special funds to finance deficiencies in the General Revenue Fund caused by timing differences between cash receipts and cash expenditures. Any surplus cash transferred to the General Revenue Fund must be returned to the fund from which it was taken as soon as possible or by the end of the fiscal year. Depository interest on funds so transferred is allocated as if the funds had not been transferred. Data on the amount of interfund borrowing may be found in Table A-14.

Tax and Revenue Anticipation Notes

The Treasurer is authorized to issue Tax and Revenue Anticipation Notes on behalf of the State under legislation which became effective in October 1986. Under the terms of the legislation, notes may be issued solely to coordinate the state's cash flow within a fiscal year and must mature and be paid in full during the biennium in which the notes are issued.

Before issuing any notes, the Treasurer must prepare a forecast of the cash flow shortfall for the state's General Revenue Fund, based on the most recent estimate of anticipated revenues prepared by the Comptroller of Public Accounts, and must submit the forecast to the state's Cash Management Committee. The Cash Management Committee is composed of the Governor, Lieutenant Governor, the Comptroller of Public Accounts, and the Treasurer as voting members, and the Speaker of the House of Representatives as a non-voting member. The amount of notes issued by the Treasurer may not exceed the amount approved by the Cash Management Committee, which, in turn, may not approve the issuance of notes in an amount in excess of the temporary cash shortfall projected by the Treasurer. The total amount of notes issued and interfund borrowing may not exceed 25% of the taxes and revenues to be credited to the state's General Revenue Fund for the fiscal year as forecasted by the Treasurer. Data on Tax and Revenue Anticipation Notes issued may be found in Table A-14.

Audits

Primary responsibility for the auditing of state books and records lies with the State Auditor. The State Auditor is appointed by the Legislative Audit Committee (a committee composed of the Lieutenant Governor, the Speaker of the House of Representatives, the chairmen of the House Appropriations Committee and the House Ways and Means

Committee and the chairmen of the Senate Finance Committee and the Senate State Affairs Committee), with the approval of the Senate, and serves for a term of two years subject to removal at the pleasure of the Legislative Audit Committee. The State Auditor is charged with the responsibility of auditing the accounts, books and other financial records of state agencies and submitting **written audit** reports to the Legislative Audit Committee and, if improprieties are found, to the Governor and the head of the department in question. The State Auditor also is responsible for making recommendations for improvement of the efficiency of state government and may require changes in the accounting systems of the various state agencies in order to provide a uniform and efficient record keeping system. The State Auditor does not audit the constitutionally required "cash basis" financial statements of the State prepared by the Comptroller. However, since fiscal 1987, the Comptroller is required by law to issue a statewide annual financial report which conforms to GAAP for **state** governments. This report is audited by the State Auditor and the audited version of the 1994 report was issued on February 28, 1995. Copies of the audited **GAAP** annual financial report are available to the public by writing to the Fund Accounting Division, Comptroller of Public Accounts, P.O. Box 13528, Capitol Station, Austin, TX 78711.

General Investment Authority and Portfolio

The State Treasurer is responsible for holding and investing the cash deposits of individual state agencies. The Treasurer invests the State's assets in investments **authorized** by statute and consistent with the Texas State **Treasury** Investment Policy, dated August 1993, by pooling the funds of **all** agencies. The approximate **size** of the investment pool ranges from **\$6** billion to \$9 billion depending on seasonal variations in revenues and expenditures.

Authorized Investments. Under current Texas law, the **Treasurer** is authorized to invest in (1) direct **security** repurchase agreements; (2) reverse security repurchase agreements; (3) direct obligations of or obligations the principal and interest of which are guaranteed by the United States; (4) direct obligations of or obligations **guaranteed** by agencies or instrumentalities of the United States government; (5) bankers' acceptances that have received the highest short-term credit rating by a nationally recognized investment rating firm; (6) commercial paper that have received the highest short-term credit rating by a nationally recognized investment rating firm; (7) contracts written by the treasury in which the treasury grants **the** purchaser the right to purchase securities in the treasury's marketable securities portfolio at a specified price over a specified period but specifically prohibits naked-option or uncovered option trading; (8) direct **obligations of** or obligations guaranteed by the **Inter-American Development Bank**, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest credit rating by a nationally recognized investment rating **firm**; (9) bonds issued, assumed, or guaranteed by the State of Israel; (10) obligations of a state or an agency, county, city, or other political subdivision of a state; and (11) mutual funds secured by obligations that are described by (1) through (6) above.

The Treasury may not purchase any of the following types of investments: (1) obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations the payment of which represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts **opposite** to the changes in a market index.

Investment Policies. All investments are consistent with State law and made with the primary objectives of: (1) preservation of capital and protection of principal, first; (2) maintenance of sufficient liquidity to meet operating needs, second; (3) safety of State funds and securities, third; (4) diversification of investments to avoid risk, fourth; and (5) **maximization** of return, fifth.

All investment transactions are handled by authorized Treasury Investment Division staff approved by the Treasurer. Each investment transaction is made on a competitive basis and **confirmed** by a second investment staff member.

Only fully collateralized repurchased agreements are purchased by the Treasury. Repurchase agreement collateral is limited to those securities authorized for outright purchase by the Treasury. All such collateral is held for safekeeping at the Federal Reserve Bank of Dallas, San Antonio Branch, in the name of the State Treasurer. Collateral is monitored daily to ensure adequate market value. All margins are maintained and deficits corrected as soon as possible, generally no later than the next business day. Repurchase agreements are executed only with primary dealers and financial institutions domiciled within the State of Texas.

Current Treasury Investments. As of June 1, 1995, the balance in the State Treasury was approximately \$8 billion, of which \$747 million is invested by the Treasurer at the discretion of the State Permanent School Fund, Permanent University Fund, and employee pension funds. As of such date, the balance was invested in the following categories:

**Current Treasury Investments
Table A-1**

<u>Investment Type</u>	<u>Principal (In Millions)</u>	<u>Percent of Total</u>
Bank Deposits	\$274	3.4%
T-Bill	0	0.0
T-Notes	2,115	26.5
T-S strips	50	0.6
Agency Notes	1,653	20.7
Repurchase Agreements	3,049	38.3
Lottery Award Annuities	738	9.3
Mortgage Backed Securities	219	2.7
Commercial Paper	11	0.1
Other	54	0.7
Reverse Repurchase Agreements	<u>-193</u>	<u>-2.4</u>
	<u>\$7,970</u>	<u>100.0%</u>

SOURCE: Texas State Treasury.

Approximately 5 percent of these securities are derivatives. The average remaining term of these securities (excluding securities matched to State lottery prize liabilities) is 393 days.

Investment Management Services. In addition, the Treasurer is the sole shareholder of the Texas Safekeeping Trust Company. The Trust Company was established to provide direct access to the services of the Federal Reserve System and to enable the Treasurer to manage and invest public funds and securities more efficiently and economically. The Trust Company contracts with the Treasury to provide management services to state agencies and local governments.

The Treasury currently manages numerous separate portfolios for the Trust Company of which the local government investment pool, known as TexPool, is the largest portfolio. TexPool was organized by the Treasury in 1989 and its balances have ranged from a high of \$10 billion to a low of \$1.3 billion in the last few years. TexPool is invested and managed separately from the Treasury portfolio and is not pooled with Treasury investments. As of June 1, 1995, the TexPool had 1,385 members and a fund balance of \$3.1 billion, of which \$2.3 billion was in cash and \$800 million was in marketable securities. TexPool is rated a **AAAm** money market fund by Standard and Poor's and has an average maturity of 14 days.

STATE REVENUES AND EXPENDITURES

Identity of Funds

An understanding of the relative importance of each of the state's revenue sources requires a brief explanation of the state's fund accounting process. As stated above, there are several hundred different funds comprising the Treasury. The General Revenue Fund ("Fund I"), due to the character and large number of the programs financed through it, provides an indication of the state's financial condition. In fiscal year 1994, the General Revenue Fund accounted for most of the State's total net revenue (see Tables A-3 and A-4). A more expansive grouping of State funds which provides an understanding of the state's financial condition is the group of Funds I through 849. The remaining state funds, numbered 850 through 999, are trust and suspense funds which are held in trust for specific state programs, such as sales tax revenues which are required to be distributed to local governments in the State. The trust and suspense accounts are generally excluded from the discussion of revenues and expenditures.

To provide for maximum utilization of state funds, the 72nd Legislature enacted legislation mandating the consolidation of the state's numerous funds. The Comptroller of Public Accounts, with the concurrence of the Treasurer, was authorized to abolish or merge eligible funds into the General Revenue Fund on or before August 31, 1993. As authorized under Senate Bill 3, 72nd Legislature, numerous state funds, specifically excluding constitutionally dedicated and trust funds, were consolidated into accounts within the General Revenue Fund on August 31, 1993. The consolidated funds maintain their identity through utilization of account numbers. The accounts experienced no changes due to consolidation, except the merged funds are now referred to as "accounts." Merging of the funds provided a one-time gain of approximately \$ 1.2 billion for the General Revenue Fund.

In addition, the 72nd Legislature provided that funds and special accounts (excluding trust, constitutional and federal funds) created by state statute dedicating revenues for a specific purpose would be abolished on August 31, 1995. This would allow revenues that were removed from statutory dedication to become available for spending through the legislative general appropriation process. In 1995, the 74th Legislature enacted House Bill 3050, which re-dedicated certain funds, accounts and revenues that were scheduled for abolishment at the end of fiscal 1995.

Revenue Sources

Due to the state's expansion in Medicaid spending and other Health and Human Services programs requiring federal matching revenues, federal receipts were the state's number one source of income in fiscal 1994 (see Table A-5). Sales tax, which had been the main source of revenue for the previous 12 years prior to fiscal 1993, was second. Licenses, fees, fines and penalties are now the third largest revenue source to the state, with motor fuels taxes and interest and investment income following as fourth largest and fifth largest, respectively. The remainder of the state's revenues are derived primarily from the motor vehicle, cigarette and tobacco, franchise, oil and gas severance and other taxes. The state has no personal or corporate income tax, although the state does impose a corporate franchise tax based on the amount of a corporation's capital and "earned surplus," which includes corporate net income and officers' and directors' compensation.

The following table describes the major taxes levied by the State which are a source of funds for the General Revenue Fund and the rate and tax base for each tax.

**Major State Taxes
Table A-2**

<u>Description of Tax</u>	<u>Rate and Base</u>
Sales and Use Tax.....	6.25 percent of the sale price of taxable items and selected services.
Natural and Casinghead Gas Tax	7.5 percent of the market value of gas produced in the State; 4.6 percent of the market value of condensate produced in the State.
Oil Production and Regulation Taxes	Production: 4.6 percent of the market value of oil produced in the State. Regulation: 3/16 of 1¢ on each barrel produced.
Motor Fuels Taxes	Motor Fuels Tax: 20¢ per gallon of gasoline. Special Fuels Taxes: diesel fuel—20¢ per gallon; liquefied gas—15¢ per gallon.
Motor Vehicle Sales and Rental Taxes	Sales: 6.25 percent of vehicle sales price, less any trade-in. Rental: 6.25 percent of gross rental receipts and 10 percent on rentals of 30 or less days. Interstate Carriers: A 6.25 percent apportioned tax is due on certain motor vehicles, trailers, semitrailers and buses operated on an interstate basis by carriers who are residents of the State or who are domiciled or doing business in the State.
Cigarette and Tobacco Products Taxes	Cigarette: 920.50 per 1,000 weighing 3 pounds or less (41¢ per pack of 20): \$22.60 per 1,000 weighing more than 3 pounds. Cigar and Tobacco Products: based on weight per 1,000 and selling price: (i) cigars weighing not more than three pounds per 1,000—1¢ for every 10 cigars; (ii) cigars weighing more than three pounds per 1,000 and a factory list price of not more than 3.3¢ each—\$7.50 per 1,000; (iii) cigars weighing more than three pounds per 1,000 and a factory list price of over 3.3¢ each, containing no substantial amounts of nontobacco ingredients—\$1.00 per 1,000; (iv) cigars weighing more than three pounds per 1,000 and a factory list price of over 3.3¢ each, containing substantial amounts of nontobacco ingredients—\$15.00 per 1,000; (v) chewing, pipe or smoking tobacco and snuff—35.2 1/3 percent of the factory list price exclusive of discounts.
Corporation Franchise Tax	Domestic and foreign corporations, pay (1) \$2.50 per \$1,000 of taxable capital and surplus plus (2) 4.5 percent of “earned surplus” (corporation net income and officers’ and directors’ compensation) in the amount that the “earned surplus” tax is above the capital tax.
Alcoholic Beverages Tax.....	Beer: \$6.00 per barrel. Liquor: \$2.40 per gallon. Wine: Alcoholic volume not over 14 percent—20.44 per gallon; alcoholic volume more than 14 percent, but less than 24 percent—40.8¢ per gallon. Sparkling wine: 5 I .6¢ per gallon. Malt Liquor (Ale): 19.8¢ per gallon. Mixed Drinks Gross Receipts: 14 percent of gross receipts. Airline/Passenger Train Beverage Tax: 5¢ per serving.
Insurance Companies Tax	Life, Health and Accident Insurance Companies Rates: 1.75 percent of gross premium receipts. If a carrier collects total gross premiums of less than 9150,000, the tax rate is 1/2 the rate described above. Fire and Casualty Insurance Companies Rate: 3.5 percent of gross premium receipts if the value of Texas investments is less than 85 percent of

(Continued on following page)

Description of Tax

Rate and Base

similar investments in the comparison state. 2.4 percent if value is 85 percent to 90 percent. 1.6 percent if value is greater than 90 percent.

Unauthorized Insurance Premium Tax Rate: 4.85 percent of gross premiums charged.

Surplus Lines Insurance Rate: A premium receipts tax of 4.85 percent of the gross premium charged (inactive).

Insurance Administrative Tax Rate: 2.5 percent on the gross administrative or service fees secured in connection with certain insurance plans.

Inheritance Tax

A tax equal to the amount of the federal credit is imposed on the transfer of property at death.

Utility Taxes

Public Utility Gross Receipts: ~~1/6 of 1~~ percent of gross receipts. Gas, Electric and Water Utility: cities 1,000 to 2,500 population—~~0.58~~ 1 percent of gross receipts; cities ~~2,500 to~~ 10,000 population—1.070 percent of gross receipts; cities 10,000 population or more—1.997 percent of gross receipts. Gas Utility Administration: ~~1/2 of 1~~ percent of gross income of gas utility.

Hotel and Motel Tax

6 percent of consideration paid by occupant.

Source: Texas Comptroller of Public Accounts.

Limitations on Taxing Powers

The Constitution prohibits the State from levying ad valorem taxes on property for general revenue purposes.

The Constitution also limits the rate of growth of appropriations from tax revenues not dedicated by the Constitution during any biennium to the estimated rate of growth for the state's economy. The Legislature may avoid the constitutional limitation if it finds, by a majority vote of both houses, that an emergency exists. The Constitution authorizes the Legislature to provide by law for the implementation of this restriction, and the Legislature, pursuant to such authorization, has defined the estimated rate of growth in the state's economy to mean the estimated increase in state personal income.

Historical Revenues, Expenditures and Cash Condition

The following table contains information concerning the cash condition for the General Revenue Fund for the state's last five fiscal years. Fiscal year 1994 includes consolidated accounts.

**Statement of Cash Condition of the General Revenue Fund
Table A-3**

	Fiscal Year Ended August 31				
	1990	1991	1992	1993	1994
Fund Balance—September 1					
Cash in State Treasury	\$ 296,828,021	\$ 766,831,949	\$ 1,004,640,655	\$ 609,154,780	\$ 1,623,491,377
Cash in Petty Cash Accounts	1,663,408	1,834,006	1,806,888	6,135,985	10,007,832
	<u>\$ 298,491,429</u>	<u>\$ 768,665,955</u>	<u>\$ 1,006,447,543</u>	<u>\$ 615,290,765</u>	<u>\$ 1,633,499,209</u>
Fund Consolidation Reclassification					
Cash in State Treasury					-28,436
Cash in Petty Cash Accounts					-590
Net Revenue:					
Tax Collections	\$13,312,298,179	\$14,566,788,390	\$15,536,511,050	\$16,699,030,546	\$18,085,089,233
Federal income	207,523,435	362,668,284	936,963,752	4,233,060,786	9,464,111,555
Interest and Investment Income	63,158,58	188,471,340	71,959,471	46,838,045	84,885,329
Licenses, Fees, Permits, Fines & Penalties	321,234,247	360,941,993	503,252,707	576,833,681	2,492,350,695
Contributions to Employee Benefits	82,273,018	88,389,397	95,923,187	104,417,675	115,499,445
Sales of Goods and Services	25,257,412	22,645,407	25,561,594	27,750,886	56,987,933
Land Income	10,626,308	6,324,450	6,204,333	8,989,259	14,198,562
Settlements of Claims	617,761	2,140,237	29,287,377	14,324,054	10,006,041
Other Revenue	46,301,290	157,531,611	519,433,672	606,646,885	503,041,688
Net Lottery Proceeds			312,063,136	1,113,574,245	1,586,028,433
Total Net Revenue	<u>\$14,069,290,233</u>	<u>\$15,755,901,109</u>	<u>\$18,037,160,279</u>	<u>\$23,431,466,061</u>	<u>\$32,412,198,914</u>
Other Sources:					
Bond Safe Proceeds	\$ 23	\$ 0	\$ 14	\$ 1,711	\$ 0
Sale/Redemption of Investments	10,621	118,063	28,062	11,086,787	101,309,520
Deposits to Trust and Suspense	35,546	-600,248	8,042	-3,087	61,412,484
Direct Deposit Transfers	0	0	0	0	18,833,406
Operational Transfers	327,992,367	371,887,529	424,750,356	594,792,529	853,963,333
Operating Transfers	-3,390,887,642	-3,839,698,834	-3,525,631,599	-6,689,218,333	15,768,191,696
Residual Equity Transfers	76,616,606	117,338,684	84,464,956	126,585,488	315,23,691
Other Sources	130,589,305	138,605,975	139,647,322	110,929,507	10,996,328
Funds Consolidation Transfer				1,180,993,671	
Total Other Sources	<u>\$-2,855,643,092</u>	<u>\$-3,212,348,831</u>	<u>\$-2,876,732,847</u>	<u>\$-4,664,831,727</u>	<u>\$16,846,230,458</u>
Total Net Revenue and Other Sources	<u>\$11,213,646,141</u>	<u>\$12,543,552,278</u>	<u>\$15,160,427,432</u>	<u>\$18,766,634,334</u>	<u>\$49,258,429,372</u>
Net Expenditures:					
General Government	\$ 386,290,106	\$ 419,404,924	\$ 435,703,459	\$ 508,208,862	\$ 1,341,916,671
Health and Human Services	1,075,208,152	1,324,058,034	2,494,323,049	2,893,926,565	12,000,958,141
Public Safety and Corrections	767,737,472	894,316,455	1,046,611,567	1,247,440,789	1,648,679,475
Transportation	1,760,895	4,133,269	2,207,887	3,704,162	45,086,036
Natural Resources/ Recreational Services	102,092,316	108,134,416	103,052,021	152,005,646	472,756,325
Education	3,420,196,805	3,538,433,296	3,714,356,901	3,780,757,614	5,566,507,141
Regulatory Agencies	63,677,274	85,115,071	83,801,919	88,055,653	169,277,921
Employee Benefits	807,893,620	794,047,970	833,736,745	1,007,078,699	1,413,480,066
Debt Service Interest	56,500,662	70,735,926	2,942,920	30,136,398	21,040,891
Capital Outlay	138,224,533	164,893,720	177,793,622	171,446,439	267,353,995
Lottery Winnings Paid	0	0	21,575,229	275,662,158	428,700,580
Total Net Expenditures	<u>\$ 6,819,669,835</u>	<u>\$ 7,403,273,081</u>	<u>\$ 8,937,186,119</u>	<u>\$10,158,422,985</u>	<u>\$23,375,757,242</u>

(continued on next page)

Statement of Cash Condition of the General Revenue Fund (continued)
Table A-3

	<u>Fiscal Year Ended August 31</u>				
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Other Uses:					
Purchase of Investments	\$ -9.066	\$ -51	\$ 0	\$ -585	\$ 117,682,872
Trust and Suspense Payments	-1,925	549	67,673	1,260	-716,641
Teacher and Employee Retirement Payments	-7,365	131,944,441	120,335,806	130,877,034	139,980,421
Departmental Transfers	94,216,276	116,624,054	225,832,163	263,629,133	625,671,956
Operating Fund Transfers	3,787,794,358	4,609,191,992	6,225,447,421	7,153,427,584	24,141,536,881
Other Uses	175,076	124,925	4,383,205	187,955	3,235,009
Debt Service Principal	41605,243	44,584,580	42661,071	45,752,372	53,697,637
Total Other Uses	<u>\$ 3,923,973,377</u>	<u>\$ 4,902,470,490</u>	<u>\$ 6,616,727,339</u>	<u>\$ 7,593,874,752</u>	<u>\$ 25,281,287,935</u>
Total Net Expenditures and Other Uses	<u>\$10,743,643,212</u>	<u>\$12,305,743,571</u>	<u>\$15,555,913,458</u>	<u>\$17,752,297,737</u>	<u>\$48,657,045,177</u>
Net Increase (Decrease) To Petty Cash Accounts	170,597	-27,119	4,329,248	3,871,847	4,363,991
Fund Balance through August 31	<u>\$ 768,665,955</u>	<u>\$ 1,006,447,543</u>	<u>\$ 615,290,765</u>	<u>\$ 1,633,499,209</u>	<u>\$ 2,239,216,369</u>
Cash in State Treasury	766,831,949	1,004,640,655	609,154,780	1,623,491,377	222,464,136
Cash in Petty Cash Accounts	1,834,006	1,806,888	6,135,985	10,007,832	14,371,233

NOTE: Totals may not add due to rounding.

'Does not include payments made by retailers.

SOURCE: Texas Comptroller of Public Accounts, Annual Cash Report (various years).

The following table contains information concerning the cash condition of the state's General Revenue Fund, special revenue funds and trust and suspense funds for the fiscal year ending August 31, 1994, and for the total of all of the state's funds and accounts as of such date. The information contained in the table does not include cash held in certain funds maintained by state operated institutions of higher education (see "Education-Higher Education") or certain other funds that are not accounted for through the office of the Comptroller of Public Accounts.

Statement of Cash Condition
Table A-4
Year Ended August 31, 1994

	Consolidated General Revenue (001)	Special Revenue (non-consolidated) (002-849)*	Trust & Suspense (850-999)**	Total All Funds
Fund Balance— September 1, 1994				
Cash in State Treasury	\$ 1,623,491,377	\$ 2,335,697,791	\$ 3,584,703,143	\$ 7,543,892,311
Cash in Petty Cash Accounts	<u>10,007,832</u>	<u>8,544,572</u>	<u>25,000</u>	<u>18,577,404</u>
	\$ 1,633,499,209	\$ 2,344,242,363	\$ 3,584,728,143	\$ 7,562,469,715
Fund Consolidation Reclassification				
Cash in State Treasury	(28,436)	26,436	0	0
Cash in Petty Cash Accounts	(590)	590	0	0
Net Revenue				
Tax Collections	\$18,085,089,233	\$ 20,861,361	\$ 4,234,013	\$ 18,110,184,607
Federal Income	9,464,111,555	1,087,971,361	245	10,552,083,553
Interest and Investment Income	84,885,329	1,612,572,149	4,744,320,762	6,441,778,240
Licenses, Fees, Permits, Fines & Penalties	2,492,350,695	658,464,524	2,380,406	3,153,195,625
Contributions to Employee Benefits	115,499,445	0	109,318,168	224,817,613
Sales of Goods and Services	56,987,933	84,164,034	4,602,261	145,754,228
Land Income	14,198,562	206,277,131	310,744	220,794,437
Settlement of Claims	10,006,041	2,194,993	32,725	12,233,759
Net Lottery Proceeds	1,586,028,433	0	0	1,586,028,433
Other Revenue	503,041,688	622,640,556	348,232,101	1,473,914,345
Total Net Revenue	<u>\$32,412,198,914</u>	<u>\$ 4,295,146,501</u>	<u>\$ 5,213,439,425</u>	<u>\$ 41,920,784,840</u>
Other Sources:				
Bond and Note Proceeds	\$ 0	\$ 2,561,433,901	\$ 0	\$ 2,561,433,901
Sale/Redemption of Investments	101,309,520	3,635,935,775	12,644,582,051	16,381,827,346
Deposits to Trust and Suspense	61,412,484	4,096,305	7,006,073,031	7,071,581,820
Direct Deposit Transfers	18,833,406	0	13,699,885,046	13,718,718,452
Departmental Transfers	853,963,333	405,968,361	10,304,303	1,270,235,997
Operating Fund Transfers	15,768,191,696	10,994,633,980	3,712,380,475	30,475,206,151
Residual Equity Transfers	31,523,691	23,402,519	(6,157)	54,920,053
Other Sources	10,996,328	0	895,897,620	906,893,948
Total Other Sources	<u>\$16,846,230,458</u>	<u>\$17,625,470,841</u>	<u>\$37,969,116,369</u>	<u>\$ 72,440,817,668</u>
Total Net Revenue and Other Sources	<u>\$49,258,429,372</u>	<u>\$21,920,617,342</u>	<u>\$43,182,555,794</u>	<u>\$114,361,602,508</u>
Net Expenditures:				
General Government	\$ 1,341,916,671	\$ 57,588,367	\$ 312,536,267	\$ 1,712,041,305
Health and Human Services	12,000,958,141	4,396,564	1,215,140,477	13,220,495,182
Public Safety and Corrections	1,648,679,475	289,405,779	0	1,938,085,254
Transportation	45,086,036	2,680,915,455	0	2,726,001,495
Natural Resources/Recreational Services	472,756,325	116,327,896	626,550	589,910,771
Education	5,566,507,141	7,849,738,178	0	13,416,245,319
Regulatory Agencies	169,277,921	0	675,642	169,953,563
Lottery Winnings Paid**	428,700,580	0	2,481,470	431,182,050
Employee Benefits	1,413,480,066	204,932,919	248,373,928	1,866,786,913
Debt Service Interest	2 1,040,891	327,424,926	5	348,465,822
Capital Outlay	267,353,995	731,608,673	4,693,400	1,003,656,068
Total Net Expenditures	<u>\$23,375,757,242</u>	<u>\$12,262,338,761</u>	<u>\$ 1,784,727,739</u>	<u>\$ 37,422,823,742</u>

Statement of Cash Condition (continued)
Table A-4
Year Ended August 31, 1994

	Consolidated General Revenue (001)	Special Revenue (non-consolidated) (002-849)*	Trust & Suspense (850-999)**	Total All Funds
Other Uses:				
Purchase of Investments	\$ 117662.672	\$ 4,337,512,504	\$18,153,058,345	\$ 22,608,253,721
Trust and Suspense Payments	(716.841)	33,446,341	3,706,340,612	3,739,072,112
Teacher & Employee Retirement Payments	139980.421	283,795	1,879,422,090	2,019,686,306
Direct Deposit Transfers	0	0	13,694,039,637	13,694,039,637
Operanmental Transfers	825,871,956	1,661,629,196	6,648,726	2,516,149,882
Operating Fund Transfers	24,141,536,681	155,261,952	4,244,402,361	29,938,757,194
Other Uses	3,235,009	39,962,729	81,752	43,279,490
Oebt Service Principal	53,697,637	1,615,027,779	0	1,668,725,416
Total Other Uses	<u>\$25,281,287,935</u>	<u>\$ 9,260,682,298</u>	<u>\$41,685,993,525</u>	<u>\$ 76,227,963,758</u>
Total Expenditures and Other Uses	<u>\$48,657,045,177</u>	<u>\$21,523,021,059</u>	<u>\$43,470,721,264</u>	<u>\$113,650,787,500</u>
Net Increase (Decrease)				
To Petty Cash Accounts	\$ 4363.991	\$ (5637.271)	\$ 296	\$ (1,472,984)
Fund Balance/Year Ending Aug. 31, 1994	<u>\$ 2,239,218,369</u>	<u>\$ 2,736,030,401</u>	<u>\$ 3,296,562,969</u>	<u>\$ 8,271,811,739</u>
Cash in State Treasury	\$ 2,224,647,136	\$ 2,733,322,510	\$ 3,296,537,673	\$ 8,254,707,319
Cash in Petty Cash Accounts	\$ 14,371,233	\$ 2,707,691	\$ 25,296	\$ 17,104,420

*Fund 021 has been excluded as it is a trust account. Fund 851 has been included.

**Fund 021 has been included. Fund 851 has been excluded.

***Does not include payments made by retailers.

NOTE: Totals may not add due to roundii

SOURCE: Texas Comptroller of Public Accounts. Annual Cash Report 1994.

The following table provides information concerning net revenues and opening balances for state funds, other than trust or suspense funds, for each of the state's five latest fiscal years. The information contained in the table does not include certain revenues collected by state-operated institutions of higher education (see "Education-Higher Education") and certain other revenues that are not accounted for through the office of the Comptroller of Public Accounts.

**Revenue by Source and Opening Cash Balances
Funds 1-849***

Table A-5

	Fiscal Year Ended August 31				
	1990	1991	1992	1993	1994
Tax Collections by Major Tax					
Sales Tax	\$ 7,589,433,561	\$ 8,255,678,436	\$ 8,551,528,033	\$ 9,122,074,600	\$ 9,810,089,853
Oil Production Tax	516,095,673	689,174,036	512,748,731	492,258,062	361,968,586
Natural Gas Production Tax	568,131,197	662,598,690	497,129,124	682,926,381	554,484,493
Motor Fuels Taxes (Gasoline, Diesel, LPG)	1,515,452,150	1,509,284,554	1,953,453,153	2,085,523,583	2,170,231,159
Motor Vehicle Sales and Rental, Mfg. Housing Sales Taxes	1,091,802,410	1,073,200,660	1,220,492,771	1,420,655,605	1,616,525,973
Franchise Tax	587,843,233	596,179,082	1,090,049,535	1,192,811,335	1,260,748,953
Cigarette and Tobacco Taxes	431,579,167	636,999,598	582,793,592	616,836,413	573,336,564
Alcoholic Beverages Taxes	335,170,198	377,749,817	386,279,772	393,248,502	400,483,720
Insurance Occupation Taxes	526,078,064	596,376,102	517,157,038	461,251,561	766,870,090
Utility Taxes	197,881,452	248,082,259	217,599,724	227,285,501	263,308,174
Inheritance Tax	131,148,576	127,225,383	141,007,395	142,200,890	152,353,873
Hotel and Motel Tax	114,888,600	121,139,576	127,079,544	135,734,857	145,654,589
Other Taxes	27,547,178	27,885,787	51,596,736	37,929,968	29,894,567
Total Tax Collections	\$13,632,640,459	\$14,922,113,980	\$15,848,915,148	\$17,010,737,258	\$18,105,950,594
Revenue by Source					
Tax Collections	\$13,632,640,459	\$14,922,113,980	\$15,848,915,148	\$17,010,737,258	\$18,105,950,594
Federal Income	5,930,267,702	6,964,492,520	8,417,246,411	9,852,694,247	10,552,083,308
Interest and Investment Income	1,676,472,401	1,714,113,563	1,861,535,666	2,155,274,452	1,697,457,478
Licenses, Fees, Permits, Fines, and Penalties	1,589,792,513	1,655,724,290	1,863,234,245	2,073,008,928	3,150,815,219
Contributions to Employee Benefits	82,273,018	88,339,397	95,923,187	104,417,675	115,499,445
Sales of Goods and Services	138,395,789	122,645,587	41,475,274	128,098,213	141,151,967
Land Income	278,968,584	281,619,758	225,561,529	238,524,557	220,475,693
Settlement of Claims	15,900,362	3,542,223	31,046,931	17,665,270	12,201,034
Other Revenue Sources	277,688,845	437,541,954	950,885,699	1,101,108,970	1,125,682,244
Net Lottery Proceeds			312,063,136	1,113,574,245	1,586,028,433
Total Net Revenue	\$23,622,399,673	\$26,190,183,272	\$29,647,887,226	\$33,795,103,815	\$36,707,345,415
Receipts to Petty Cash Accounts	1,631,404	433,791	4,774,970	6,565,680	-1,209,781
Opening Net Cash Balances, Sept. 1					
State Treasury	2,210,237,193	3,197,362,434	3,456,379,992	3,651,265,809	3,959,189,168
Petty Cash Funds	6,425,601	7,833,311	7,867,972	12,186,195	18,552,404
Total, Opening Net Cash Balances, September 1	2,216,662,794	3,205,195,745	3,464,247,964	3,663,452,004	3,977,741,572
Total Net Revenue and Opening Cash Balances	\$25,840,693,871	\$29,395,812,808	\$33,116,910,160	\$37,465,121,499	\$40,683,877,206

*Fund 021 has been excluded as it is a trust account. Fund 851 has been included.

Note: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts, Annual Cash Report (various years).

The following table sets forth information concerning per capita tax collections from all sources for all funds, other than trust or suspense funds, the percentage change in tax collections from year to year and the relationship between tax collections and personal income.

Texas Per Capita State Tax Collections
Funds 1-849
Table A-6

<u>Fiscal Year</u>	<u>State Tax Collections</u>	<u>Resident Population(1)</u>	<u>Per Capita Tax Collections</u>	<u>Percentage Change</u>	<u>Taxes as a Percent of Personal Income</u>
1990	13,632,640,459	17,019,503r	801.00r	4.2r	4.9r
1991	14,922,113,980	17,307,638r	862.17r	7.6r	5.0r
1992	15,848,915,148	17,627,978r	899.08r	4.3r	5.0r
1993	17,010,737,258	17,976,930r	946.25r	5.2r	5.0r
1994	18,105,950,594	18,332,860e	987.626	4.40	5.0e

r • revised
e • estimated

(1) Population figures are for fiscal years.

Source: Tax collection data was compiled from the Texas Comptroller of Public Accounts, Annual *Cash Report* (Austin: various years). Population and personal income figures are from U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis, and are converted to an average for the Texas fiscal year by the Texas Comptroller of Public Accounts.

The following table sets forth information concerning expenditures by the State, categorized by function, and closing cash balances for each of the state's five latest fiscal years. The information contained in the table refers to state funds, other than trust or suspense funds, and does not include certain expenditures of state-operated institutions of higher education (see "Education—Higher Education") or certain other expenditures that are not accounted for through the Comptroller of Public Accounts.

Net Expenditures by Function and Closing Cash Balances
Funds 1-849*
Table A-7

	Fiscal Year Ended August 31				
	1990	1991	1992	1993	1994
General Government:					
Executive	\$ 953,462,337	\$ 1,085,251,757	\$ 1,092,304,431	\$ 1,372,069,481	\$ 1,238,019,113
Legislative	54,227,137	65,565,623	66,707,065	77,422,061	72,208,800
Judicial	72436.949	74,043,681	79,308,237	84,203,132	69,277,125
Total	\$ 1,080,126,423	\$ 1,224,861,061	\$ 1,238,319,733	\$ 1,533,694,674	\$ 1,399,505,038
Services:					
Health and Human Services	\$ 5,657,468,005	\$ 7,015,043,541	\$ 9,547,507,693	\$11,244,376,916	\$12,005,354,705
Public Safety and Corrections	1,036,284,579	1,193,484,011	1,373,897,962	1,608,178,599	1,938,085,254
Transportation	2,581,734,504	2,496,389,185	2,367,666,761	2,797,305,965	2,726,001,495
Natural Resources/ Recreational Services	249,894,589	314,125,544	416,992,318	468,817,116	589,084,221
Education	10,056,899,362	11,083,789,647	11,909,759,293	12,782,081,539	13,416,245,319
Regulatory Agencies	157,220,509	184,620,426	164,557,705	171,288,087	169,277,921
Lottery Winnings Paid			21,575,229	275,662,158	428,700,580
Employee Benefits	1,130,845,109	1,278,489,750	1,320,920,169	1,576,890,111	1,618,412,985
Debt Service - Interest	315,462,320	322,343,381	370,052,352	317,060,523	348,465,817
Capital Outlay	4149321,766	489,606,990	558,845,788	613,352,910	998,962,668
Total Expenditures	\$22,680,257,166	\$25,602,753,536	\$29,290,095,003	\$33,388,708,598	\$35,638,096,003
Net Interfund Transfers and					
Investment Transactions	(44,982,734)	328,412,178	162,906,406	98,471,858	70,268,934
Disbursements to Petty Cash	223,694	399,130	456,747	199,471	263,499
Closing Net Cash Balances, Aug. 31					
State Treasury	3,197,362,434	3,456,379,992	3,651,265,809	3,959,189,168	4,958,169,646
Petty Cash	7,833,311	7,867,972	12,186,195	18,552,404	17,079,124
Total, Closing Net Cash Balances, Year Ended Aug. 31	3,205,195,745	3,464,247,964	3,663,452,004	3,977,741,572	4,975,248,770
Total Net Expenditures and Closing Cash Balances	\$25,840,693,871	\$29,395,812,808	\$33,116,910,160	\$37,465,121,499	\$40,683,877,206

*Fund 021 has been excluded as it is a trust account. Fund 851 has been included.

NOTE: Totals may not add due to rounding.

SOURCE: Texas Comptroller of Public Accounts, *Annual Cash Report (various years)*.

The following table sets forth information concerning state expenditures, for all funds, other than trust or suspense funds, categorized by object, for each of the state's last five fiscal years. The information contained in the table does not include certain expenditures of state-operated institutions of higher education (see "Education-Higher Education") or certain other expenditures not accounted for through the Comptroller of Public Accounts.

Net Expenditures by Object
Funds 1-849*
Table A-8

	Fiscal Year Ended August 31				
	1990	1991	1992	1993	1994
Salaries and Wages	\$ 4,593,129,653	\$ 4,822,198,012	\$ 4,994,208,789	\$ 5,458,685,356	\$ 5,8X3,313,874
Employee Benefits					
Employee Benefit Payments	1,280,419,907	1,355,814,342	1,467,527,235	1,467,249,086	1,383,671,220
Payroll Related Costs	737,741,808	866,900,562	927,591,878	1,129,434,011	1,162,853,733
Supplies and Materials	441,227,793	467,998,107	490,013,544	533,072,092	499,533,955
Other Expenditures	497,746,277	607,462,540	716,278,646	780,208,442	1,023,250,263
Public Assistance Payments	4,136,511,219	5,404,659,324	7,747,348,151	9,316,061,731	9,977,665,627
Intergovernmental Payments					
Foundation School Program Grants	5,082,054,435	5,808,210,961	6,476,030,405	7,038,863,567	7,355,088,827
Other Public Education Grants	1,055,826,462	1,157,322,673	1,231,599,159	1,458,192,554	1,617,633,785
Grants to Higher Education	673,310,084	675,062,711	717,048,479	732,702,931	758,404,893
Other Grants	666,762,040	841,990,955	819,735,303	888,589,566	892,956,919
Lottery Winnings Paid**	0	0	21,575,229	275,662,158	428,700,580
Travel	92,315,649	94,664,103	101,275,314	111,174,578	106,853,017
Professional Services and Fees	144,869,132	199,933,943	272,526,165	326,749,427	420,458,244
Payment of Interest - Debt Service	315,462,320	322,343,381	370,052,352	317,060,523	348,465,817
Highway Construction and Maintenance	1,889,308,328	1,787,468,662	1,653,729,649	2,010,326,779	1,931,008,598
Capital Outlay	414,321,766	489,606,990	558,845,788	613,352,910	998,962,668
Repairs and Maintenance	100,396,655	119,134,931	119,570,172	113,757,459	119,697,284
Communication and Utilities	319,246,255	x9,146,333	319,817,181	350,085,914	364,165,831
Rentals and Leases	98,257,866	110,845,029	133,567,419	172,795,365	185,309,392
Claims and Judgments	32,752,912	35,484,966	43,248,052	52,563,653	60,988,597
Cost of Goods Sold	87,455,409	85,865,735	85,392,283	205,175,936	137,722,832
Printing and Reproduction	21,141,196	20,639,266	23,113,808	36,944,560	36,390,047
Total Net Expenditures	\$22,680,57,166	\$25,602,753,536	\$29,290,095,003	\$33,388,708,598	\$35,638,096,003

*Fund 021 has been excluded as it is a trust account.

Fund 851 has been included since it is not a trust or suspense fund.

**Does not include payments made by retailers.

Note: Totals may not add due to rounding.

Source: Texas Comptroller of Public Accounts.

Analysis of Revenues and Expenditures

1992-93 Budget. When the Legislature convened in January 1991, estimated revenues for the 1992-93 biennium fell considerably short of those needed to fund the services currently provided by the state. Official estimates placed the shortfall at 54.8 billion, with some saying the shortfall could be more if all the spending needs for education, prisons, health and human services were met. Work on the 1992-93 budget was delayed until a summer special session.

In late June 1991, the Comptroller outlined in his first Texas Performance Review (TPR) report, *Breaking the Mold: New Ways to Govern Texas*, that he had found substantial general revenue related savings that could be used to reduce the 1992-93 shortfall. The Comptroller also reported several ways to reorganize state government in the areas of human services, natural resources, and state licensing boards. After the release of the TPR report, the Legislature was called into a special session to deal sequentially with the reorganization of state government, the budget, taxes and fees. In mid-August, the Legislature approved an all funds budget of \$60.1 billion and a general revenue related budget of \$34.6 billion and \$3.4 billion in new revenue measures to pay for it.

The new budget contained significant increases in funding for health and human services, education, and public safety and corrections. The health and human services budget increased by \$5.1 billion because of increasing client loads and expanding federal mandates in Medicaid and other areas. Funding for education increased by \$2.3 billion, which included complete funding for a revised public school funding formula. Funding for public safety and corrections increased by over \$700 million because of increased prison construction and related operating costs.

The \$3.4 billion in new general revenue related revenues to finance the budget came from several sources. A tax bill raised a total of \$2.1 billion for the state. A fiscal management bill added another \$779 million. Legislative approval of a lottery added another \$462 million. Finally, another \$50 million was added through a change in the Permanent School Fund investment strategy, which made additional short-term earnings available to help fund public schools during the biennium.

The most important component of the tax bill was a major overhaul of the state's franchise tax, which included a new measure of business activity referred to as "earned surplus". A part of the change was a lowering of the tax rate on capital from \$5.25 to \$2.50 per \$1,000. An additional surtax on "earned surplus", which includes federal net corporate income and officers' and directors' compensation of 4.5 percent, was added. Essentially, corporations pay tax on capital or tax on "earned surplus", whichever is higher.

1994-95 Budget. The 73rd Legislature convened for its regular session on January 12, 1993, and adjourned on May 31, 1993. For the 1994-95 biennium, the Legislature approved a budget of approximately \$70.1 billion, including about \$38.8 billion in general revenue related appropriations. General revenue funding increased 10.6 percent over 1992-93, the smallest increase since 1988-89. The shape of the budget reflects pressures to provide an adequate level of services without increasing taxes. The "no new taxes" theme placed lawmakers in the position of finding alternative ways to finance increased funding. This was accomplished by incorporating proposals contained in the Governor's report, *Working for Texas*, and the Comptroller's Texas Performance Review report, *Against the Grain: High-Quality Low-Cost Government for Texas*. Also, the state continued to expand its use of federal funding in health, human services, and education programs. Federal funds are estimated to reach \$19.8 billion during the 1994-95 biennium.

In 1993, Texas became the first state to adopt a performance-based budget, using a strategic planning budget system that ties funding levels to results for every aspect of state government. The new system allows legislators to analyze state agency needs in terms of outcomes.

With the repeal of one-time delays by the 74th Legislature, 1994-95 estimated general revenue related spending is \$40.0 billion.

1996-97 Budget. When the 74th Legislature convened on January 10, 1995, state elected officials had already made a commitment to pass a state budget without raising additional taxes. While this was an extremely challenging task due to demands for additional funding for public education and other governmental services, it became much easier with the Comptroller's January 1995 release of the *1996-97 Biennial Revenue Estimate* detailing significant growth in state revenues and an estimated balance of \$3.0 billion from the 1994-95 biennium.

Issues addressed by the 74th **Legislature** included public education reform, welfare reform, work force training and tort reform. Among measures passed by the Legislature were numerous recommendations outlined in the Comptroller's Texas Performance Review report, *Gaining Ground*.

Before the Legislature adjourned on May 29, 1995, a state budget **totalling** \$79.9 billion had passed (see table below), including \$45.1 billion in general revenue related funds. This general revenue related amount includes \$1.0 billion in revenues from consolidated accounts losing their dedication. The actions of the 74th Legislature coupled with improved economic activity enabled the Comptroller to certify that sufficient revenue will be available to pay for the state's 1996-97 budget.

**The Budget for Texas State Government for the 1996-97 Biennium
Compared to Expended/Budgeted for the 1994-95 Biennium
All Funds
(In Millions),
Table A-9**

	Expended/ Budgeted <u>1994-95</u>	1996-97 <u>Budgeted</u>	Amount <u>Change</u>	Percent <u>Change</u>
General Government	\$ 1,938.5	\$ 1,823.7	\$ (114.9)	(5.9%)
Health and Human Services	24,013.9	26,422.4	2,408.5	10.0
Education	31,293.0	33,592.9	2,300.0	7.3
Judiciary	249.3	257.1	7.8	3.1
Public Safety and Criminal Justice	7,332.6	6,925.6	(407.0)	(5.6)
Natural Resources	1,477.7	1,736.1	258.4	17.5
Business and Economic Development	8,262.9	8,793.1	530.1	6.4
Regulatory	387.0	416.7	29.7	7.7
General Provisions	0.0	(326.3)	(326.3)	NA
The Legislature	<u>219.0</u>	<u>221.2</u>	<u>2.3</u>	1.0
TOTAL	<u>\$75,173.9</u>	<u>\$79,862.4</u>	<u>\$4,688.5</u>	6.2%

Source: Legislative Budget Board.

Revenue Forecasts: Fiscal Years 1995-1997

The following table sets forth information concerning estimated revenues for the state's 1995, 1996 and 1997 fiscal years along with actual collections for comparable revenues during the state's 1992 through 1994 fiscal years. The information is for Funds 1-849.*

**Actual and Forecasted Revenue
Table A-10**

	Fiscal Year Ending August 31					
	1992(A) <u>millions</u>	1993(A) millions	1994(A) <u>millions</u>	1995(E) <u>millions</u>	1996(E) millions	1997(E) <u>millions</u>
Tax Collections						
Sales Tax	\$ 8,551.5	\$ 9,122.1	\$ 9,810.1	\$10,312.9	\$10,719.7	\$11,261.5
Oil Production & Regulation Taxes	512.7	492.3	362.0	373.2	353.9	367.0
Natural Gas Production Tax	497.1	682.9	554.5	527.4	481.7	568.7
Motor Fuels Taxes	1,953.5	2,085.5	2,170.2	2,237.9	2,274.5	2,309.7
Cigarette & Tobacco Taxes	582.8	616.8	573.3	599.9	551.4	576.5
Motor Vehicle Sales & Rental Taxes	1,220.5	1,420.7	1,616.5	1,712.0	1,794.1	1,870.0
Franchise Tax	1,090.0	1,192.8	1,260.7	1,252.0	1,386.4	1,464.2
Alcoholic Beverage Taxes	386.3	393.2	400.5	405.4	409.0	411.5
Insurance Occupation Taxes	517.2	461.3	766.9	605.6	616.5	644.0
Inheritance Tax	141.0	142.2	152.4	155.2	159.1	163.4
Hotel-Motel Tax	127.1	135.7	145.7	154.7	164.4	174.8
Utility Taxes	217.6	227.3	263.3	253.6	268.4	266.0
Other Taxes	51.6	37.9	29.9	25.0	25.8	24.7
Total Tax Collections	\$15,848.9	\$17,010.7	\$18,106.0	\$18,614.7	\$19,204.9	\$20,102.1
Revenue by Receipt Type						
Tax Collections	15,848.9	\$17,010.7	\$18,106.0	\$18,614.7	\$19,204.9	\$20,102.1
Business/Professional Fees	404.9	459.8	475.7	494.3	510.9	513.4
Non-Commercial Permits and Fees	1,091.4	1,200.9	1,274.5	1,313.8	1,354.8	1,380.3
Violations, Fines & Penalties	105.6	122.1	144.0	142.6	142.6	146.4
State Service Fees	250.4	274.0	1,253.2	1,312.4	1,021.1	1,040.0
Sales, Rental & Repayment	41.5	128.1	141.2	146.2	122.8	146.9
Grants and Donations	9.7	10.4	8.3	12.0	9.2	9.4
Lottery Proceeds	312.1	1,113.6	1,586.0	1,635.2	1,679.3	1,717.9
Federal Receipts	8,417.2	9,852.7	10,552.1	10,942.3	11,474.3	12,183.7
Interest and Dividends	1,861.5	2,155.3	1,697.5	1,771.4	1,668.7	1,621.2
Land Income	225.4	238.5	220.5	224.0	220.0	216.9
Other Receipts	1,079.2	1,229.0	1,248.6	831.3	828.0	850.6
Total Revenue	\$29,647.9	\$33,795.1	\$36,707.3	\$37,440.2	\$38,236.7	\$39,928.8

*Fund 021 has been excluded as it is a trust account. Fund 85 I has been included since it is not a trust or suspense fund.

(A) Actual

(E) Estimated.

Source: Texas Comptroller of Public Accounts, 1996-97 Biennial Revenue Estimate.

The revenue estimate for fiscal years 1995 through 1997, released in January 1995, was prepared by the Comptroller of Public Accounts as directed by the Constitution. (See "Fiscal Matters-Appropriations and Budgeting.") The revenue estimate is based on an econometric model of the Texas economy created by the Comptroller, utilizing extensive data bases relating to state and local economic conditions and demographic statistics. These models are supplemented by economic services such as Data Resources Inc. and Wharton Econometrics Forecasting Associates which provide the U.S. economic data used in the state forecast. Similar models have been used in preparing prior revenue estimates. The revenue estimate for 1995 through 1997 is based on an assumption that the Texas economy will show a steady growth.

The State of Texas finished fiscal year 1994 with a \$2.239 billion positive cash balance in the General Revenue Fund. This was the seventh consecutive year that Texas had ended a fiscal year with a positive balance in the General Revenue Fund.

STATE DEBT

State General Obligation Debt

Except as specifically authorized, the Constitution generally prohibits the creation of debt by or on behalf of the State, with two exceptions: (i) debt created to supply casual deficiencies in revenues which do not total more than \$200,000 at any time, and (ii) debt to repel invasion, suppress insurrection, defend the State in war, or pay existing debt. In addition, the Constitution prohibits the **Legislature** from lending the credit of the State to any person, including municipalities, or pledging the credit of the State in any manner for the payment of the liabilities of any individual, association of individuals, corporation or municipality. The limitations of the Constitution do not prohibit the issuance of revenue bonds, since the Texas courts (like the **courts** of most states) have held that certain obligations do not create a "debt" within the meaning of the Constitution. The State and various state agencies have issued revenue bonds payable from the revenues produced by various facilities or from lease payments appropriated by the Legislature. Furthermore, obligations which are payable from funds expected to be available during the current budget period, do not constitute "debt" within the meaning of the Constitution. Short term **obligations**, like the Tax and Revenue Anticipation Notes issued by the Treasurer, which mature within the biennial budget period in which they were issued, are not deemed to be debt within the meaning of the state constitutional prohibition.

At times, the voters of the State, by constitutional amendment, have authorized the issuance of general obligation indebtedness for which the full faith, credit, and taxing power of the State are pledged. In some cases, the authorized indebtedness may not be issued without the approval of the Legislature, but in other cases, the constitutional amendments are self-operating and the debt may be issued without specific legislative action.

Various state agencies have the authority to issue general obligation (G.O.) bonds. The Veterans' Land Board (VLB) is authorized to issue G.O. bonds to finance the purchase of land and housing by veterans. The Texas Water Development Board (**TWDB**) is authorized to issue G.O. bonds to make funds available to municipalities and certain other governmental units for the conservation and development of water resources; the acquisition and development of water storage facilities for the filtration, treatment and transportation of water; water quality enhancement purposes; flood control purposes; and water-efficient irrigation systems. Additionally, **TWDB** is authorized to incur unlimited contractual obligations to the United States (U.S.) for the acquisition and development of water storage facilities in reservoirs constructed by the U.S. These contractual obligations are declared by the Constitution to be general obligations of the State.

The Texas Agricultural Finance Authority (TAFA) is authorized to issue G.O. bonds to provide financial assistance for the expansion, development and diversification of production, processing and marketing of Texas agricultural products. Additionally, TAFA is authorized to issue G.O. bonds for a farm and ranch **program**. The Texas Parks and **Wildlife** Department (TPWD) is authorized to issue G.O. bonds to finance the **acquisition** and development of state parks. The Texas Higher Education Coordinating Board (THECB) is authorized to issue G.O. bonds to finance student loans. The Texas National Research Laboratory Commission (TNRLC) is authorized to issue G.O. bonds to aid in the construction of the "superconducting super collider" project. Given the decision by the U.S. Congress to terminate federal funding for the super collider, the Legislature made provisions for the removal of the remaining authority subject to voter approval in November 1995. Additionally, the General Appropriations Act for the 1996-97 biennium includes provisions for the defeasance of all or a portion of the outstanding G.O. bonds associated with the super collider project.

The Texas Public Finance Authority (TPFA) is authorized to issue G.O. bonds to finance the acquisition, construction and equipping of new facilities, and major repair or renovation of existing facilities for correction institutions and mental health and mental retardation institutions. Effective January 1, 1992, TPFA is authorized to issue G.O. bonds on behalf of TNRLC and TPWD. The Texas Department of Commerce (TDOC) is authorized to issue G.O. bonds to provide loans to finance the commercialization of new or improved products or processes developed in Texas and to stimulate the development of small businesses in Texas. Certain public colleges and universities are authorized to issue bonds payable from certain appropriations required by the Constitution, without limitation as to principal amount, except that the debt service on such bonds may not exceed 50 percent of the amount appropriated each year.

State General Obligation Debt-Annual Debt Service Requirements

Much of the outstanding bonded indebtedness of the State is designed to be self-supporting, even though the full faith and credit of the State is pledged for its payment. Revenues from land and housing programs are expected to be sufficient to pay principal and interest on all outstanding VLB bonds. Almost all of the bonded indebtedness of TWDB is self-supporting to the extent that all funds provided from payments on obligations of political subdivisions for water projects are applied to such bonded indebtedness; such revenues have been sufficient to pay the principal and interest on such bonds since fiscal year 1980, without resort to appropriated funds. The remaining portion of TWDB's debt is for the Economically Distressed Areas Program. These bonds do not depend totally on the state's general revenue for debt service; however, up to 90 percent of the bonds issued may be used for grants. Revenues from student loans are pledged to pay the principal and interest on the outstanding bonds of THECB. Revenues from park entrance fees and other income have been sufficient to pay principal and interest on the outstanding bonds of TPWD.

The general obligation bonds that have been issued by TPFA and TNRLC are not self-supporting. All debt service on these bonds is paid from the State's general revenue fund. The higher education constitutional bonds are not explicitly a general obligation or full faith and credit bond, but the revenue pledge has the same effect. Debt service is paid from an annual constitutional appropriation to qualified institutions of higher education from the first monies coming into the state treasury that are not otherwise dedicated by the Constitution.

State Revenue Bonds

TPFA, TNRLC and the National Guard Armory Board (the "Armory Board") have authority to issue state-backed lease revenue bonds. Such obligations do not constitute debt, within the meaning of the Constitution, even though they are payable from rental payments appropriated and made by the State under leases covering the facilities financed with the proceeds of the obligations.

The Armory Board is authorized to issue bonds, payable solely from rents received with respect to buildings constructed by it and leased to the National Guard, without limitation as to amount.. Effective January 1, 1992, the TPFA issues bonds on behalf of the Armory Board.

TPFA is authorized to issue lease-revenue bonds to finance the construction, acquisition or renovation of state office buildings and equipment revenue bonds to finance the acquisition of equipment. For the lease-revenue bonds, the authorized amount of debt is equal to 1.5 times the estimated cost of projects that have been approved by the Legislature.

In addition to the foregoing revenue obligations issued by state agencies, additional state programs may be financed with revenue bonds or similar obligations payable from revenues generated by the specific authorized programs, and not from the general revenues of the State or its taxing power. Among the state entities authorized to issue such revenue bonds are the Texas Water Development Board, the Texas Water Resources Finance Authority, the Texas Agricultural Finance Authority, the State Treasurer on behalf of the Texas School Facilities Finance Program, the Texas Department of Housing and Community Affairs, the Texas Department of Commerce, the Texas Turnpike Authority, the Texas Public Finance Authority, the Texas Low-Level Radioactive Waste Disposal Authority and Texas colleges and universities.

Selected Data Concerning State Debt

The following table sets forth information concerning the debt service requirements of general obligation and other constitutionally authorized indebtedness of the State as well as revenue bonds payable from the State's General Revenue Fund for fiscal years 1995 and beyond.

**General Obligation Bond Debt Service and Revenue Bond
Debt Service Payable from General Revenue (1)
Determined as of May 31, 1995
Table A-11**

Fiscal Year	General Obligation Bonds (2)		Revenue Bonds			Total Revenue Bonds	Total
	Principal	Interest	Total G.O. Payable from Bonds	Principal	Interest		
1995	\$36,033,160	\$82,726,711	\$118,759,871	\$10,985,000	\$9,291,537	\$20,276,537	\$139,036,408
1996	175,471,615	299,011,215	474,482,830	36,449,396	34,874,715	71,324,111	545,806,941
1997	198,454,810	286,661,952	485,116,762	31,672,334	33,147,135	64,819,469	549,936,232
1998	218,541,190	277,608,062	496,149,252	30,905,000	31,444,555	62,349,555	558,498,807
1999	228,675,454	267,123,236	495,798,690	25,055,000	29,777,965	54,832,965	550,631,655
2000	242,187,106	254,305,575	496,492,681	26,685,000	28,216,885	54,901,885	551,394,566
2001	257,562,843	239,377,656	496,940,499	28,385,000	26,525,691	54,910,691	551,851,189
2002	213,152,351	282,182,425	495,334,776	29,925,000	24,711,017	54,636,017	549,970,793
2003	267,287,169	220,536,229	487,823,398	31,130,000	22,783,794	53,913,794	541,737,192
2004	236,843,582	203,553,572	440,397,154	22,333,091	30,888,227	53,221,318	493,618,472
2005	212,049,406	199,276,554	411,325,960	22,774,336	30,309,681	53,084,017	464,409,977
2006	216,114,540	187,056,349	403,170,889	23,418,300	29,658,534	53,076,834	456,247,723
2007	225,092,694	175,458,730	400,551,424	23,482,279	28,867,668	52,349,947	452,901,370
2008	228,642,243	162,868,305	391,510,548	22,051,987	28,112,730	50,164,717	441,675,265
2009	233,643,971	149,297,078	382,941,049	22,314,522	27,035,514	49,350,036	432,291,085
2010	212,480,644	121,992,538	334,473,182	23,030,953	26,139,111	49,170,064	383,643,245
2011	202,619,354	96,603,329	299,222,683	15,992,244	25,437,060	41,429,304	340,651,987
2012	183,838,135	82,592,211	266,430,346	16,534,410	24,837,550	41,371,960	307,802,306
2013	188,423,828	69,343,086	257,766,914	15,165,663	24,286,645	39,452,308	297,219,221
2014	179,713,510	57,908,256	237,621,766	15,722,396	23,661,455	39,383,851	277,005,617
2015	157,911,409	47,056,688	204,968,097	13,260,000	10,178,356	23,438,356	228,406,454
2016	111,570,000	37,704,747	149,274,747	10,555,000	9,355,492	19,910,492	169,185,239
2017	68,925,000	32,437,643	101,362,643	11,300,000	8,579,640	19,879,640	121,242,283
2018	62,695,000	28,152,511	90,847,511	12,090,000	7,749,295	19,839,295	110,686,806
2019	67,385,000	20,666,299	88,051,299	12,940,000	6,860,730	19,800,730	111,252,029
2020	64,070,000	19,855,965	83,925,965	13,850,000	5,909,685	19,759,685	103,685,650
2021	39,610,000	15,753,351	55,363,351	36,800,000	4,111,610	40,911,610	96,274,961
2022	42,250,000	13,012,001	55,262,001	39,510,000	1,402,605	40,912,605	96,174,606
2023	36,405,000	10,393,824	46,798,824	0	0	0	46,798,824
2024	27,850,000	7,999,302	35,849,302	0	0	0	35,849,302
2025	22,605,000	6,237,418	28,842,418	0	0	0	28,842,418
2026	11,865,000	4,723,042	16,588,042	0	0	0	16,588,042
2027	1,460,000	4,156,178	5,616,178	0	0	0	5,616,178
2028	290,000	4,087,785	4,377,785	0	0	0	4,377,785
2029	310,000	4,067,050	4,377,050	0	0	0	4,377,050
2030	335,000	4,444,885	4,779,885	0	0	0	4,779,885
2031	355,000	4,020,933	4,375,933	0	0	0	4,375,933
2032	380,000	3,995,550	4,375,550	0	0	0	4,375,550
2033	410,000	3,968,380	4,378,380	0	0	0	4,378,380
2034	60,040,000	3,939,065	63,979,065	0	0	0	63,979,065
2035	470,000	33,605	503,605	0	0	0	503,605
Total	\$4,934,019,014	\$3,995,189,289	\$8,929,208,303	\$624,316,911	\$594,154,880	\$1,218,471,791	\$10,147,680,094

(1) For capital appreciation bonds, the accretion amounts are shown as interest payments in the year the bonds mature.

(2) Includes debt service on general obligation bonds which, although legally secured by the State's taxing authority, are expected to be repaid with sources outside of the State's general revenue fund. Does not include a contractual obligation with the U.S. Bureau of Reclamation in connection with the Palmetto Bend Reservoir (Phase I) on which the Water Development Board has a maximum potential obligation of \$43.3 million in principal (determined as of January 1, 1994).

On May 31, 1995, the Texas Agricultural Finance Authority had outstanding \$18.5 million in general obligation commercial paper. The debt service on the commercial paper is not included in the figures shown in this table. Debt service is not known since the paper will be refunded periodically. It is anticipated that the Authority's program will not rely on the State's general revenue for debt service.

The Texas Public Finance Authority general obligation debt service figures include the estimated payments on \$370.5 million of general obligation commercial paper outstanding as of May 31, 1995. The figures assume the commercial paper will be outstanding for approximately three years and then converted to long-term fixed-rate bonds. On May 31, 1995, the Texas Public Finance Authority also had \$49.1 million in non-general obligation commercial paper outstanding. The debt service on this commercial paper is not included in the figures shown in this table.

The Veterans Land and Housing Assistance Bonds debt service figures include the estimated payments on \$69.6 million of variable rate debt outstanding as of May 31, 1995. Of the variable rate debt, \$10 million is tax exempt and \$59.6 million is taxable. The figures assume the principal on the tax exempt variable rate debt will be reduced annually, with the final maturity in 2023, and the taxable variable rate debt will remain outstanding until it matures in 2033.

As of May 31, 1995, there was \$3.1 billion of general obligation bonds authorized but unissued, excluding \$250 million authorized for the superconducting super collider project, which the Legislature has made provisions to repeal subject to voter approval in November 1995. The Higher Education Constitutional Appropriation bonds are limited only to the extent that debt service in any year may not exceed 50 percent of the amount required to be appropriated by the State Constitution. An additional \$800 million in general obligation bonding authority is pending voter approval in November 1995.

The National Guard Armory Board is authorized to issue bonds solely payable from rents received with respect to buildings constructed by it and leased to the National Guard, without limitation as to amount. As of May 31, 1995, the Texas Public Finance Authority had \$302.9 million authorized but unissued lease revenue bonds.

Sources: Texas Bond Review Board, Office of the Executive Director.

The following table sets forth information concerning the principal amount of general obligation bonds and revenue bonds payable from the State's General Revenue Fund for selected years and the amount of debt service paid from the General Revenue Fund on such bonds. The table does not include debt service on general obligation bonds if such debt service is paid from sources other than State general revenue. The table also does not include outstanding revenue bonds or the debt service on such bonds if the debt service on such bonds is paid from sources other than State general revenue. The information contained in the table does not reflect outstanding Permanent University Fund bonds or bonds guaranteed by the Texas Permanent School Fund or the debt service on such bonds. State tax and revenue anticipation notes do not constitute debt, within the meaning of the State Constitution, and are therefore not shown on the table.

**General Obligation Bonds and Revenue Bonds
Payable from General Revenue
Table A-12**

	Fiscal Year Ended August 31				
	1990	1991	1992	1993	1994
Principal Amount Outstanding (Millions) (1)	\$2,941.25	\$3,235.39	\$3,443.41	\$4,078.42	\$5,032.31
Principal Amount Per Capita (1)	\$172.56	\$186.54	\$194.91	\$226.30	\$273.82
Principal Amount as a Percentage of Personal Income (1)	1.05%	1.08%	1.08%	1.19%	1.38%
Annual Debt Service Paid from General Revenue (Millions) (2)	\$100.63	\$127.30	\$169.50	\$196.65	\$246.05
Debt Service Paid from General Revenue as a Percentage of Available General Revenue Fund Revenues (2)	0.87%	0.98%	1.19%	1.25%	1.49%
Annual Debt Service Paid from General Revenue Per Capita (2)	\$5.90	\$7.34	\$9.59	\$10.91	\$13.39
Debt Service Paid from General Revenue as a Percentage of Personal Income (2)	0.04%	0.04%	0.05%	0.06%	0.07%

(1) Includes general obligation bonds which, although legally issued by the State's taxing authority, are expected to be repaid with sources outside of the State's general revenue fund.

(2) Includes only that debt service which was paid out of the State's general revenue fund.

Source: Texas Comptroller of Public Accounts and Texas Bond Review Board.

The following table sets forth information concerning the revenues of the General Revenue Fund available to pay debt service on the State's general obligation indebtedness for fiscal year 1994, after allowance for revenue required to be appropriated for other purposes by the State Constitution or designated for specific uses by the federal government.

General Revenue Available After Constitutional Allocations and Other Restrictions
Table A-13

Revenue Source	Year Ended August 31, 1994		
	General Revenue (Fund 001)	Allocated or Restricted	Unrestricted Balance Available
Sales Tax	\$ 9,789,232,854	\$ 1,220,146	\$ 9,788,012,708
Oil Production Tax	361,968,585	91,511,190	270,457,395
Natural Gas Production Tax	554,484,493	140,700,441	413,784,052
Motor Fuels Taxes	2,170,231,160	2,170,152,105	79,055
Motor Vehicle Taxes	1,616,525,972	399,680,802	1,216,845,170
Franchise Tax	1,260,744,803	0	1,260,744,803
Cigarette and Tobacco Taxes	573,336,563	9,488,780	563,847,783
Alcoholic Beverages Taxes	400,483,721	302,834,507	97,649,214
Insurance Occupation Taxes	766,870,083	264,686,358	502,183,725
Utility Taxes	263,308,175	51,608,922	211,699,253
Inheritance Tax	152,353,872	0	152,353,872
Hotel and Motel tax	145,654,589	12,132,976	133,521,613
Other Taxes	29,894,363	6,945,258	22,949,105
Total Tax Collections	\$18,085,089,233	\$ 3,450,961,485	\$14,634,127,748
Tax Collections (above)	\$18,085,089,233	\$ 3,450,961,485	\$14,634,127,748
Federal income	9,464,111,555	9,464,111,555	0
Interest and investment Income	84,885,329	33,200,865	51,684,464
Licenses, Fees, Permits, Fines and Penalties	2,492,350,695	1,979,934,398	512,416,297
Contributions to Employee Benefits	15,499,445	0	115,499,445
Sales of Goods and Services	56,987,933	25,885,696	31,102,237
Land Income	14,198,562	4,570,288	9,628,274
Settlements of Claims	10,006,041	2,179,471	7,826,570
Other Revenue Sources	503,041,688	228,535,459	274,506,229
Net Lottery Proceeds	1,586,028,433	743,945,841	842,082,592
Total Net Revenue, Allocations and Restrictions	\$32,412,198,914	\$15,933,325,058	\$16,478,873,856

Source: Texas Comptroller of Public Accounts.

The following table contains information concerning the amount of Tax and Revenue Anticipation Notes issued by the Treasurer and the amount of interfund borrowing utilized for the last five fiscal years. Tax and Revenue Anticipation Notes issued by the Treasurer which mature within the biennial budget period in which they were issued, do not constitute "debt" within the meaning of the Constitution.

**Table A-14
Cash Management**

<u>Fiscal Year</u>	<u>Tax and Revenue Anticipation Notes Issued (in millions)</u>	<u>Interfund Borrowing (in millions)</u>	<u>Total (in millions)</u>
1991	\$550	\$300	\$850
1992	1,100 (1)	500	1,600
1993	1,500	300	1,800
1994	1,400	0 (2)	1,400
1995	2,200	0 (2)	2,200

(1) Includes \$300 million of commercial paper notes.

(2) Interfund borrowing not used in fiscal years 1994 and 1995 due to the consolidation of numerous funds into the General Revenue Fund on August 31, 1993. See "State Revenues and Expenditures-Identity of Funds" for a description of funds consolidation.

Source: Texas State Treasury.

ECONOMIC INFORMATION

Principal Business Activities

Texas' economy, as measured by its gross state product, accounts for **over 7 percent** of the total economy of the United States. This is up from **5 percent of the** U.S. economy in 1963.

The State of Texas has long been identified with the oil and gas industry, but the Texas economy has diversified. In **1981**, drilling, production, refining, chemicals and energy-related manufacturing accounted for 25 percent of the state's total output of goods and services. Today, these businesses account for 11 percent of the state's economy.

As with the national economy, the service-producing sectors (which include transportation and public utilities; finance, insurance and real estate; trade; services; and government) are the major sources of job growth in Texas. Texas' location and transportation accessibility have made it a distribution center for the southwestern United States as well as an international center for finance and distribution. Unlike the U.S., manufacturing also is adding a substantial number of new jobs in Texas. With leadership provided by a strong high-technology sector and the growth of exports, manufacturing job growth is expected to be significant to Texas' future growth.

The Comptroller of Public Accounts predicts that the overall Texas economy will **outpace** national economic growth over the long term by an annual average of nearly one-half percentage point.

Geographic Variations

The vast size of the State, together with cultural, climactic, and geological differences within its borders, have produced great variations in the economies of the various parts of the State.

East Texas is a largely non-metropolitan region, in which the economy is dependent on agricultural activities and the production and processing of coal, petroleum and wood. The Dallas-Fort Worth Metroplex is mostly metropolitan, with diversified manufacturing, defense, financial and commercial sectors. The Panhandle, Permian Basin and Concho Valley are sparsely populated areas of the State, with an economy based on petroleum production and agri-

culture. The border area stretching from El Paso to Brownsville is characterized by its dependence on international trade with Mexico, tourism and agriculture. The Gulf Coast is the most populous region of the State and has an economy centered around petroleum and petrochemical industries and commercial activities resulting from agriculture and seaport trade. The economy of central Texas is based on the public and private service sector, defense, recreation/tourism and manufacturing.

Because the economic bases differ from region to region, economic developments-such as the strength of the U.S. economy, shifting export markets, or a change in oil prices or defense spending-affect the economy of each region differently.

Texas Economic History

The Texas Economic History for Calendar Years 1990-1994,
Table A-15

<u>TEXAS ECONOMY</u>	<u>Calendar Years</u>				
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Gross State Product (Bil 1987\$)	335.5	339.3	349.8	381.3	376.6
Annual % Change	3.0	7.2	3.1	3.3	4.2
Personal Income (Bil \$)	285.5	302.6	326.2	345.0	367.4
Annual % Change	8.2	6.0	7.8	5.8	6.5
Nonfarm Employment (Thous.)	7,099.6	7,174.6	7,268.0	7,481.3	7,740.40
Annual % Change	3.8	7.7	1.3	2.9	3.5
Resident Population (Thous.)	17,086.4	17,395.3	17,712.7	18,065.9	18,421.5
Annual % Change	1.4	7.7	1.9	2.0	2.0
Unemployment, Rate (%)	6.2	6.6	7.5	7.0	6.5
Oil Price (\$ per Barrel)	22.40	19.06	18.40	16.28	15.16
Natural Gas Price (\$ per MCF)	1.49	1.39	1.58	1.82	1.64
Oil/Gas Drilling Rig Count	350	316	250	262	275
<u>U. S. ECONOMY</u>					
Gross Domestic Prod. (Bil 1987\$)	4,897.3	4,867.6	4,979.3	5,134.5	5,342.2
Annual % Change	1.2	-0.6	2.3	3.1	4.0
Cons. Price Index (1982-84=100)	130.8	136.3	140.4	144.6	148.3
Annual % Change	5.4	4.2	3.0	3.0	2.6
Prime Interest Rate (%)	10.0	8.5	6.3	6.0	7.1

Sources: Texas Comptroller of Public Accounts.

Employment and Unemployment-Historical Review

Employment in the State increased steadily through the 1970's and the early 1980's. In 1986, the Texas economy was battered by a recession induced by declining oil prices and a collapse in the real estate industry. By the summer of 1988, the state had replaced all the jobs lost during this recession, although many were in lower-paying occupations. The Texas economy was slowed by the nation's 1990-91 recession, but it did not fall into recession itself. Employment growth speeded up in 1992, 1993 and 1994, when the Texas Employment Commission reported annual nonfarm employment growth of 3.5 percent for the year.

The following table sets forth information concerning civilian employment in the State, as well as comparable information for the United States as a whole:

Historical Review of State and U.S. Unemployment Rate
Table A-16

Year	Texas			United States		
	Civilian Labor Force(1)	Total Employment(1)	Unemployment Rate	Civilian Labor Force(2)	Total Employment(2)	Unemployment Rate
1986..	8,124.5	7,401.6	8.9	117.85	109.60	7.0
1987..	8,260.1	7,563.3	8.4	119.85	112.44	6.2
1988..	8,355.7	7,746.6	7.3	121.67	114.97	5.5
1989..	8,428.3	7,861.5	6.7	123.85	117.33	5.3
1990..	8,610.5	8,079.5	6.2	124.81	117.92	5.5
1991..	8,754.6	8,177.7	6.6	125.31	116.87	6.8
1992..	8,987.0	8,311.6	7.5	126.98	117.60	7.4
1993..	9,149.3	8,507.4	7.0	128.03	119.31	6.8
1994..	9,387.3	8,780.2	6.5	131.03	123.06	6.1
1995*	9,601.6	9,039.3	5.9	133.15	125.59	5.7

(1) In thousands.

(2) In millions.

*Preliminary

Source: The U.S. Bureau of Labor Statistics.

Employment and Unemployment-Current Situation

Since 1990, Texas has added more jobs than any other state, accounting for one-sixth of the nation's total job growth. The annual rate of employment growth has risen during each of the past four years and presently ranks around fifteenth among all states. Over the twelve months ending in April 1995, Texas gained more than 291,000 jobs, an increase of 3.9 percent, based on information from the U. S. Bureau of Labor Statistics and the Texas Employment Commission. Nonfarm employment reached an all-time high of 7.98 million in April 1995.

The state's unemployment rate has been dropping for three years. Since reaching nearly 8 percent in 1992, the unemployment rate improved to 5.6 percent by the Spring of 1995. The mix of job growth in Texas provides a strong base for sustainable growth because the new jobs are largely in knowledge-based services and high technology manufacturing industries.

Combined, Texas' manufacturing and construction industries have experienced job growth of 4.1 percent over the past year, for a faster rate than the overall service-producing sectors. Texas added a net of 49,100 jobs in the goods-producing industries from April 1994 to April 1995, despite the losses of 7,800 oil and gas jobs and another 4,200 defense-related aerospace jobs. Most of the 30,000 jobs added in manufacturing have been in the relatively healthy computer and electronics industries, in printing, and publishing, and in construction-related manufacturing, such as lumber and wood products, stone/clay/glass, and fabricated metals.

Construction was the state's fastest growing major industry over the past twelve months, having added 27,000 jobs, or 7.1 percent. Housing permits for the first quarter of 1995 exceeded those for the first quarter of 1994 by over 10 percent, despite rising mortgage rates during 1994.

With 80 percent of Texas nonfarm jobs in service-producing industries, it is not surprising that more than four out of five new jobs are being added in these sectors of the economy. Health, business, and miscellaneous services added 100,000 jobs over the last year, wholesale and retail trade added 77,000, and government added 42,000. Transportation, communications, and public utilities added 21,000 jobs, or 4.6 percent, in response to the coalescence of trucking deregulation, healthy manufacturing, and domestic and NAFTA-induced trade.

Petroleum Production and Mining

The Texas economy and the oil and gas industry have been intricately linked since the discovery of the Spindletop Field in southeast Texas in 1901. Dramatic increases in the price of oil in 1973-74 and 1979-81 propelled Texas into a leadership position in national economic growth. This situation, however, changed rapidly for Texas in 1986-87 as the price of West Texas Intermediate fell from over \$30 per barrel in November 1985 to under \$12 per barrel in July 1986.

During the oil-patch recession of 1986-87, Texas lost over 235,000 jobs, as the loss of 70,000 oil and gas jobs rippled through the rest of the economy. Technological increases in horizontal drilling capabilities spurred new optimism in the oil and gas industry during 1990, resulting in the addition of 12,000 jobs. But since early 1991 weak oil prices and the shifting of exploration activities overseas have led to the loss of 32,000 jobs. At 156,000 employees, mining has fewer jobs today than at any time since 1977.

The following table shows monthly Texas non-agricultural employment and unemployment since 1992.

Non-Agricultural Employment
(In Thousands)
Table A-17

Year	Month	Transportation, Communications, and Public					Finance, Insurance and Real Estate			Total	Unemployment Rate*	
		Mining	Construction	Manufacturing	Utilities	Trade	Estate	Services	Government			
1992	January	176.1	338.2	966.4	433.5	1,739.3	421.1	1,807.6	1,308.9	7,191.1	7.1	
	February	174.5	339.1	965.6	434.4	1,742.9	420.8	1,817.0	1,311.8	7,206.1	7.3	
	March	173.6	341.4	964.6	134.6	1,744.5	421.3	1,821.3	1,315.8	7,217.1	7.5	
	April	171.3	343.0	966.0	JY.4	1,750.4	421.0	1,832.5	1,316.8	7,235.4	7.4	
	May	171.3	346.2	969.7	433.6	1,750.4	421.4	1,834.9	1,319.9	7,247.4	7.6	
	June	170.1	343.9	970.0	433.2	1,754.1	420.7	1,836.3	1,323.3	7,251.6	7.7	
	July	169.6	345.6	968.4	430.4	1,750.1	420.5	1,843.3	1,336.6	7,264.5	7.6	
	August	168.6	344.8	967.9	430.3	1,750.6	419.7	1,847.6	1,341.1	7,270.6	7.5	
	September	168.0	343.4	967.9	%a.6	431.0	1,751.3	419.3	1,846.0	1,341.8	7,269.4	7.4
	October	167.6	346.6	974.3	430.2	1,774.3	422.6	1,870.6	1,346.4	7,332.6	7.4	
	November	166.5	346.0	973.6	430.3	1,776.6	421.5	1,871.0	1,349.7	7,335.2	7.5	
	December	165.9	346.1	976.7	430.9	1,779.9	422.2	1,879.9	1,350.1	7,351.7	7.5	
1993	January	166.9	345.4	978.0	432.5	1,784.6	425.0	1,890.8	1,352.6	7,375.8	7.6	
	February	165.6	347.3	983.3	432.6	1,792.1	424.8	1,900.2	1,360.3	7,406.2	7.5	
	March	165.3	347.9	985.5	432.8	1,793.5	424.7	1,904.4	1,362.0	7,416.1	7.2	
	April	165.4	348.5	985.3	437.6	1,794.4	424.2	1,906.3	1,368.9	7,430.6	7.1	
	May	165.2	350.8	985.0	437.0	1,797.3	424.8	1,907.8	1,372.9	7,440.8	6.8	
	June	165.5	352.4	985.7	438.3	1,804.4	426.5	1,914.4	1,371.3	7,458.5	6.9	
	July	163.6	355.6	986.9	439.8	1,814.5	428.2	1,921.6	1,377.2	7,490.0	7.0	
	August	166.0	357.8	987.5	440.5	1,818.9	429.8	1,926.1	1,386.5	7,513.1	7.1	
	September	166.4	359.0	990.1	u2.9	1,822.6	430.8	1,932.2	1,382.0	7,526.0	7.0	
	October	166.7	362.1	993.0	w5.4	1,828.5	433.1	1,933.9	1,382.9	7,545.6	7.0	
	November	166.4	363.8	993.2	wa.7	1,830.3	435.0	1,934.8	1,381.1	7,553.3	6.9	
	December	167.1	371.2	995.9	449.3	1,838.7	435.6	1,946.0	1,385.8	7,590.2	6.9	
1994	January	165.7	372.4	997.2	449.6	1,842.7	438.0	1,952.6	1,389.3	7,607.5	6.5	
	February	164.9	371.8	998.3	451.6	1,844.5	436.9	1,957.0	1,391.5	7,616.5	6.5	
	March	164.1	373.4	999.7	452.3	1,851.1	437.9	1,970.1	1,395.3	7,633.9	6.8	
	April	163.9	376.4	1,003.4	452.0	1,866.4	441.0	1,997.3	1,390.9	7,691.3	6.9	
	May	163.2	374.3	1,005.9	454.0	1,866.3	441.1	1,993.9	1,402.8	7,701.5	6.8	
	June	162.8	376.9	1,007.4	455.9	1,866.3	441.0	1,996.3	1,417.0	7,723.6	6.6	
	July	162.5	380.3	1,010.6	460.5	1,877.6	441.6	2,017.5	1,414.4	7,765.0	6.7	
	August	162.9	383.1	1,014.3	461.4	1,886.1	441.2	2,029.0	1,423.5	7,801.5	6.7	
	September	163.1	387.9	1,017.7	461.9	1,892.3	441.2	2,039.0	1,417.9	7,821.0	6.5	
	October	160.7	389.9	1,020.2	465.7	1,895.1	441.9	2,036.2	1,418.3	7,828.0	6.2	
	November	159.7	393.3	1,021.1	469.9	1,900.1	443.3	2,038.2	1,420.7	7,846.3	5.9	
	December	157.8	398.5	1,022.7	472.7	1,908.2	444.5	2,045.4	1,426.1	7,875.9	5.8	
1995	January	157.0	405.4	1,024.5	170.3	1,899.0	442.2	2,039.9	1,429.2	7,367.5	5.8	
	February	157.0	404.8	1,025.8	472.3	1,911.7	441.4	2,055.3	1,430.8	7,902.1	5.6	
	March	157.3	408.1	1,031.4	473.6	1,927.7	441.6	2,081.0	1,430.5	7,951.2	5.5	
	April	156.1	403.0	1,033.7	177.0	1,943.5	442.4	2,097.7	1,432.7	7,982.1	5.6	

Note 1: Unemployment rates are expressed as a three-month moving average.
 Note 2: All figures are seasonally adjusted.
 Note 3: Data for April 1995 are preliminary, and 1994 and 1995 numbers are subject to benchmark revisions

Sources: Texas Employment Commission and Federal Reserve Bank of Dallas.

Information concerning historical average annual Texas non-agricultural employment by industry is contained in the following tables.

**Total Non-Agricultural Employment
(In Thousands)
Table A-18**

Year	Mining and Petroleum	Construction	Manufacturing	Transportation, Communications and Public Utilities	Wholesale and Retail Trade	Finance, Insurance and Real Estate	Services	Government	Total(1)
1985	259.1	443.8	998.5	380.9	1,699.0	445.9	1,346.8	1,089.0	6,663.1
1986	205.1	404.3	951.1	374.1	1,678.1	449.6	1,383.0	1,118.8	6,564.2
1987	181.5	345.2	932.0	382.0	1,642.7	444.8	1,445.9	1,142.7	6,516.9
1988	184.3	328.8	962.6	389.3	1,656.4	439.0	1,541.9	1,175.4	6,677.8
1989	174.0	323.5	979.1	404.7	1,688.6	434.6	1,628.6	1,206.6	6,839.9
1990	181.3	336.0	997.8	423.1	1,722.4	433.5	1,743.3	1,263.4	7,100.8
1991	184.0	342.4	981.0	433.4	1,736.7	426.9	1,782.7	1,287.5	7,174.7
1992	170.3	343.8	969.6	432.3	1,755.4	421.0	1,842.4	1,334.3	7,269.0
1993	166.0	355.3	987.6	439.8	1,810.1	428.6	1,918.1	1,376.0	7,481.5
1994	162.7	380.5	1,007.1	458.2	1,874.2	441.6	1,999.9	1,415.9	7,740.1

(1) Totals may not add due to rounding.

Source: Texas Employment Commission.

**Distribution of Non-Agricultural Employment
(In Percent)
Table A - 19**

Year	Mining and Petroleum	Construction	Manufacturing	Transportation, Communications and Public Utilities	Wholesale and Retail Trade	Finance, Insurance and Real Estate	Services	Government	Total(1)
1985	3.89	6.66	14.99	5.72	25.50	6.69	20.21	16.34	100.00
1986	3.13	6.16	14.49	5.70	25.56	6.85	21.07	17.04	100.00
1987	2.79	5.30	14.30	5.86	25.21	6.83	22.19	17.53	100.00
1988	2.76	4.92	14.42	5.83	24.81	6.57	23.09	17.60	100.00
1989	2.54	4.73	14.31	5.92	24.69	6.35	23.81	17.64	100.00
1990	2.55	4.73	14.05	5.96	24.26	6.11	24.55	17.79	100.00
1991	2.56	4.77	13.67	6.04	24.21	5.95	24.85	17.94	100.00
1992	2.34	4.73	13.34	5.95	24.15	5.79	25.35	18.36	100.00
1993	2.22	4.75	13.20	5.88	24.19	5.73	25.64	18.39	100.00
1994	2.10	4.92	13.01	5.92	24.21	5.71	25.84	18.29	100.00

(1) Totals may not add due to rounding.

Source: Texas Employment Commission.

Personal Income

Information concerning total personal income for residents of the State for selected years is set forth below. Despite a strong year for construction, rental income, and trade, weakness in oil and gas, farming and finance temporarily suppressed the state's 1994 income growth. For the first time since 1989, Texas income growth was slower than the nation's.

Personal Income of State Residents
Table A-20

<u>Year</u>	<u>Personal Income (Millions)</u>	<u>Change From Prior Year</u>
1985	\$225,303	7.8%
1986	229,978	2.1
1987	233,848	1.7
1988	246,381	5.4
1989	263,238	6.8
1990	285,497	8.5
1991	302,652	6.0
1992	326,122	7.8
1993	345,018	5.8
1994	364,939	5.8

Sources: U.S. Bureau of Economic Analysis.

Information concerning per capita personal income for residents of the State, along with comparative information for the United States as a whole, is set forth in the following table.

Per Capita Personal Income
Table A-21

<u>Year</u>	<u>Texas</u>		<u>United States</u>		<u>Texas as a Percentage of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change From Prior Year</u>	<u>Per Capita Personal Income</u>	<u>Percent Change From Prior Year</u>	
1985.....	\$13,844	6.0%	\$14,155	6.2%	97.80%
1986.....	13,885	0.3	14,907	5.3	93.14
1987.....	14,067	1.3	15,638	4.9	89.95
1988.....	14,780	5.1	16,615	6.2	88.96
1989.....	15,695	6.2	17,690	6.5	88.72
1990.....	16,749	6.7	18,666	5.5	89.73
1991.....	17,450	4.2	19,201	2.9	90.88
1992.....	18,460	5.8	20,137	4.9	91.67
1993.....	19,145	3.7	20,800	3.3	92.04
1994.....	19,857	3.7	21,809	4.9	91.05

Sources: U.S. Bureau of Economic Analysis.

The following table sets forth comparative information concerning the sources of personal income for residents of the State and of the United States as a whole for the fourth quarter of 1994

**Sources of Personal Income
Table A-22**

<u>Source</u>	<u>Texas</u>		<u>United States</u>	
	<u>Total (\$)illion</u>	<u>Percent</u>	<u>Total (Billion \$)</u>	<u>Percent</u>
Wages and Salaries				
Agricultural Services and Farm	\$ 1.96	0.5%	S 31.8	0.5%
Mining.....	8.28	2.2	26.6	0.5
Construction	11.18	3.0	153.5	2.6
Manufacturing.....	34.16	9.1	637.0	10.9
Transportation and Public Utilities.. ..	16.94	4.5	219.7	3.8
Trade	38.95	10.4	550.2	9.4
Finance, Insurance , and Real Estate	15.06	4.0	269.0	4.6
Services.....	50.86	13.6	837.7	14.4
Government				
Federal Civilian	7.09	1.9	118.2	2.0
Military	3.76	1.0	46.3	0.8
State and Local	29.14	7.8	439.8	7.5
Other Labor Income	27.01	7.2	388.4	6.7
Proprietors' Income				
Farm.....	2.57	0.7	38.3	0.7
Nonfarm	38.53	10.3	444.4	7.6
Property Income.....	50.74	13.6	935.2	16.0
Transfer Payments.....	55.90	14.9	977.6	16.8
Contributions for Social Insurance	-17.21	-4.6	-285.9	-4.9
Residence Adjustment	<u>- 0 . 6 9</u>	<u>- 0 . 2</u>	<u>- 0 . 9</u>	<u>0.0</u>
Total Personal Income.....	<u>5374.22</u>	<u>100.0%</u>	<u>\$5,826.90</u>	<u>100.0%</u>

These numbers are subject to revision.
Sources: U.S. Bureau of Economic **Analysis**.

The following table sets forth historical information concerning oil and natural gas production within the State and average prices paid for oil and gas produced within the State.

Oil and Natural Gas Production
Table A-23

Calendar Year	Oil				Natural Gas			
	Total Production (Million Bbl)	Percentage Change in Texas Oil Production	Percentage of United States Production	Average Taxable Price Per Bbl	Total Production (Trillion CF)	Percentage Change in Texas Gas Production	Percentage of United States Production	Average Taxable Price Per MCF*
1985	831		25.5%	\$26.76	5.81		35.4%	\$2.11
1986	784	-5.7%	25.2	14.73	5.66	-2.6%	35.5	1.50
1987	725	-7.5	23.9	17.54	5.52	-2.5	27.8	1.34
1988	698	-3.7	23.5	14.71	5.70	3.3	27.8	1.42
1989	651	-6.7	23.3	17.84	5.60	-1.8	26.9	1.45
1990	646	-0.8	24.2	22.40	5.53	-1.2	25.9	1.49
1991	647	0.2	24.0	19.06	5.52	-0.2	25.5	1.39
1992	613	-5.3	23.5	18.40	5.44	-1.4	25.1	1.58
1993	574	-6.4	22.9	16.23	5.61	3.1	24.5	1.81
1994	541	-5.8	n/a	15.07	5.68	1.3	n/a	1.63

* MCF = 1 .000 cubic feet.

Sources: Texas Railroad Commission and Texas Comptroller of Public Accounts

Two frequently used barometers of oil and gas exploration activity are rotary drilling rig usage and the number of wells drilled. The following table sets forth historical information concerning these two statistics. In 1990, drilling activity showed a significant increase in Texas for the first time since 1984. This increase reflected the success of horizontal drilling in South Texas, but the level of rig activity has declined again in 1991, to 315 operating rigs. In 1992, the Texas rig count dropped to historical lows bottoming out in June with 209 rigs. By December 1992, the rig count had risen to 328 because of a rush to drill before the year end expiration of a federal tax break for certain natural gas wells. During January 1994, the Texas rig count fell to 253 before rising to 296 by the end of October.

Petroleum Drilling Activity
Table A-24

Year	Average Annual Rotary Rig Activity		Wells Drilled		Wells Completed	
	Total	Percent Change	Total	Wildcat	Oil	Gas
1985..	677		27,124	4,810	16,543	4,605
1986..	311	-54.1%	18,707	3,919	10,373	3,034
1987..	293	-5.8	13,121	2,633	7,327	2,542
1988..	277	-4.9	12,261	3,161	6,441	2,665
1989..	206	-25.6	10,054	2,541	4,914	2,760
1990..	348	68.9	11,231	2,556	5,593	2,894
1991..	315	-9.5	11,295	2,387	6,025	2,755
1992..	251	-20.3	9,498	1,836	5,031	2,537
1993..	263	5.2	9,969	1,980	4,646	3,295
1994..	274	4.2	9,299	2,151	3,962	3,553

Sources: Texas Railroad Commission and Texas Comptroller of Public Accounts.

The following table sets forth information concerning the number of producing wells and the estimated proven reserves of oil and natural gas within the State.

Natural Gas and Oil-Producing Wells and Estimated Proved Reserves
Table A-25

<u>Year</u>	<u>Oil</u>		<u>Natural Gas</u>	
	<u>Producing Wells on December 31</u>	<u>Estimated. Proved Reserves (Million Bbl)</u>	<u>Producing Wells on December 31</u>	<u>Estimated Proved Reserves (Trillion CF)</u>
1985.....	210,477	1,557	43,624	49.883
1986.....	200,055	7,894	42,007	41.775
1987.....	199,354	7,152	42,674	40.574
1988.....	196,580	7,112	49,577	38.711
1989.....	190,821	7,043	47,760	38.167
1990.....	194,962	6,996	49,989	38.38 1
1991.....	196,292	7.106	49,825	38.192
1992.....	193,3 10	6.797	49,839	36.174
1993.....	186,342	6,441	50,794	35.093
1994.....	179,955	6,171	52,614	34.700

Sources: Texas Railroad Commission and U.S. **Energy** Information Administration.

Wholesale and Retail Trade

Wholesale and retail trade play a significant part in the state’s economy. Houston has the second busiest port in the United States and ranks first in import trade. Dallas is a major regional distribution center, serving Texas and a number of surrounding states.

Texas wholesale trade added 10,000 jobs (2.3 percent) in 1994. Retail trade added 54,000 jobs, or a strong 4.0 percent. Overall trade experienced its fastest rate of growth since 1985, which it equaled at 3.6 percent.

Retail sales in Texas have shown a steady increase over the last decade, and year-over-year changes exceeded the comparable national increases in each year since 1988. Retail sales in 1994 were particularly strong at 11 percent, and were boosted by the sale of construction materials and home furnishings. The following table sets forth information concerning retail sales within the State, along with comparative information for the United States as a whole.

**Retail Sales
Table A-26**

Year	Texas Total Priorions)	Percent Change from Year	United States Total Priorions)	Percent Change from Year
1985	\$ 117,250	5.2%	\$ 1,374,529	7.0%
1986	112,213	-4.3	1,450,134	5.5
1987	113,021	0.7	1,539,411	6.2
1988	119,090	5.4	1,644,011	6.8
1989	126,436	6.2	1,743,393	6.0
1990	135,453	7.1	1,826,236	4.8
1991	141,940	4.8	1,863,949	2.1
1992	155,615	9.6	1,953,128	4.8
1993	168,465	8.3	2,074,192	6.2
1994*	186,643	11.0"	2,233,882	7.7

*Preliminary

Source: Texas Comptroller of Public Accounts and U.S. Bureau of the Census.

Texas exports totaled \$60 billion in 1994, up from 549.9 billion in 1992. Texas now ranks second among the states in total export trade and fifth in per capita export trade. Electronics, computers, petrochemicals and transportation equipment account for two-thirds of total Texas exports.

Because of the state’s proximity to Mexico, international trade plays an important role in the Texas economy. Several major U.S. corporations have established “sister plant” operations along the Texas-Mexico border. In these “twin bond” plants, goods are partly manufactured in a plant in Mexico and partly in a plant in the United States. In addition, the North American Free Trade Agreement (NAFTA) took effect in 1994. Texas gains proportionately more from NAFTA than the U.S. at large, but instability in the Mexican economy also has more negative effects in Texas than nationwide. Exports to Mexico comprised 40 percent of all Texas exports, and Texas accounted for 47 percent of the nation’s exports to Mexico in 1994.

Manufacturing

The manufacturing segment of the state's economy is diversified, but the most important sectors are those dealing with high technology manufacturing and the recovery and processing of the state's natural resources. Petroleum-related manufacturing, including oil-field machinery, petrochemicals and petroleum refining, account for about 14 percent of total manufacturing employment. This has dropped from 19 percent in the early 1980s with increasing diversification outside of energy-related manufacturing. The high-technology industries employ about one-fourth of all manufacturing workers, despite recent losses related to cutbacks in U.S. defense expenditures. Exports of computers and electronics totaled \$22.4 billion in 1994, and account for over 37 percent of the state's total exports.

The state's agricultural and timber resources provide raw materials for large segments of the state's manufacturing industry. Food processing employs 9.5 percent of all manufacturing workers. Lumber, furniture and paper manufacturing account for an additional 8.4 percent of manufacturing employment.

The following table contains information concerning manufacturing employment, by industry, within the state for 1994.

Manufacturing Employment by Industry
Table A-27

<u>Manufacturing Sector</u>	<u>Employment*</u> <u>(Thousands)</u>	<u>Percent of</u> <u>Manufacturing</u> <u>Employment</u>
Durable Goods		
Lumber and Wood Products	38.66	3.8%
Furniture and Fixtures	17.43	1.7
Stone, Clay and Glass	38.42	3.8
Primary Metals	29.74	3.0
Fabricated Metals	88.06	8.7
Machinery, Except Electrical	118.95	11.8
Electric and Electronic Equipment	106.40	10.6
Transportation Equipment	74.58	7.4
Instruments	38.64	3.8
Other Durable	18.79	1.9
Total Durable Goods	569.67	56.6%
Nondurable Goods		
Food and Kindred Products	95.73	9.5
Apparel and Textiles	68.86	6.8
Paper and Allied Products	28.42	2.8
Printing and Publishing	74.11	7.4
Chemicals	84.49	8.4
Petroleum and Coal Products	29.48	2.9
Leather and Other Nondurables	56.30	5.6
Total Nondurable Goods	437.39	43.4
Total	1,007.06	100.00%

*Preliminary

Sources: Texas Employment Commission and Texas Comptroller of Public Accounts

Agriculture

In 1994, agricultural output increased 14 percent over 1993 and contributed \$8.2 billion, or 1.7 percent to Texas' gross state product. The Comptroller of Public Accounts forecasts agriculture to contribute \$8.6 billion in 1995, an increase of 4 percent over the previous year. While the percent of total output is relatively small, the state is second in agricultural income in the nation and agriculture's economic impact affects all regions of the state. Estimated gross receipts from all agricultural enterprises totaled \$12.8 billion in 1994 and have averaged \$10.9 billion annually during the last ten years.

The state typically leads the nation in the production of livestock and cotton, in addition to being a major producer of peanuts and rice. Cash receipts of \$4.3 billion for crops in 1994 are 4.9 percent higher than 1993. Milk, horticultural products and poultry also contributed significantly to total farm income. Several niche enterprises have added diversity to the state's agricultural mix and are growing in importance and income.

Cattle dominate livestock production in the state, typically accounting for approximately 75 percent of the cash receipts generated from livestock enterprises each year. In 1994, the Texas Agricultural Statistics Service reported cash receipts from cattle and calves at \$6.1 billion, or 50 percent of total cash receipts from farm and ranch commodities. In recent years, an increasing number of cattle have been produced in commercial feedlot operations. Commercial feeders require large capital outlays and are concentrated in the High Plains region of the state, near abundant feed grain supplies. Texas led the nation in cattle marketed out of feedlots in 1994 with 5.1 million head, this represents 24 percent of the 13 cattle feeding states in the U.S. Grain-fed beef is almost a unique product in world markets and Texas has the infrastructure to supply a growing demand. The value of U.S. beef exports has increased 13 percent annually, 1987 through 1993. The value of exported beef in 1994 was 12 percent higher than 1993.

Other commodities have contributed to the state's dominance in livestock income. Milk production, broilers, eggs, hogs, sheep and goats have traditionally played major roles in providing income to Texas farms and ranches. Combined cash receipts for these pursuits totaled \$1.9 billion in 1994. Texas produces ten percent of the red meat, five percent of the eggs and four percent of the milk in the U.S. Commercial operations engaged in raising exotic livestock are also increasing. Income from exotic livestock in 1993 was \$127.8 million, including the sale of ostriches, emus, rheas, llamas, deer, antelope and alligators.

The state has been a major cotton producer since the late 1800s. In 1994, Texas produced 26 percent of the cotton in the U.S., more than any other state, and the value of cotton lint and seed was over \$1.8 billion. Upland cotton varieties comprise 98 percent of the state's production and the high value Pima (extra long staple) cotton makes up the other 2 percent. Texas ranks second among other cotton states in Pima production. Texas upland cotton production in 1994 reached five million bales. The value of cottonseed and lint in 1994 was 35 percent higher than the 1993 crop.

Other crops produced in the state include corn, grain sorghum and wheat. In 1994, cash receipts for these crops totaled \$609 million, \$337 million and \$241 million, respectively. Texas corn production in 1994 reached 239 million bushels, a record breaker three years running. The state also produces significant amounts of vegetables, pecans and citrus. Greenhouse and nursery receipts were \$719 million in 1994, second only to cotton. The value of vegetables in 1994 was \$315 million produced on 160,800 acres. The Texas All Farm Products Index of Prices Received by Texas farmers and ranchers dropped seven points from 99 in May of 1994 to 92 in May 1995 (basis 1990-92=100).

The North American Free Trade Agreement will enhance Texas' position to export more beef, corn, cotton, rice, sorghum and wheat, as well as consumer oriented food products. In the global marketplace, Texas ranks first in agricultural exports to Mexico and is third among other states in total agricultural exports. Texas' livestock industry can expect greater income as the international markets for these products are experiencing real dynamic growth. Increased agricultural diversity and more value-added processing facilities for Texas-grown commodities can also have income boosting effects.

The General Agreement on Tariffs and Trade (GATT) is expected to result in positive improvements in overall Texas agricultural trade. Using existing forecasts of U.S. and Texas agricultural income and production, the Comptroller's office was able to estimate the impact of GATT on the agriculture industry. From a 1994 base year, Texas farmers and ranchers may realize an additional \$91 million in net farm income by 2000, rising by an estimated \$175 million by 2005. Key Texas commodities contributing to the rise in income are beef, cotton, feed grains, rice, vegetables and citrus.

Financial Institutions

Texas banks experienced 9 percent loan growth during the first three quarters of 1994, following a nearly 11 percent increase in dollars lent in 1993. After a decade of sharp contrasts -from unrivaled profits to unprecedented failures-Texas banking has seen a renewal of profitability in the 1990s. Bank failures peaked at 134 in 1989 and then declined to 29 in 1993, none in 1994, and none (through May) in 1995.

Employment in finance, insurance, and real estate (FIRE) mushroomed by over 100,000 jobs from 1980 to 1986, before losing 30,000 jobs from 1986 to 1992. A mild recovery of 21,400 jobs has occurred since, resulting in total FIRE employment of 442,400 in April 1995.

Overall, Texas financial institutions have been profitable in the 1990s. Net bank income was \$657 million in 1990, \$1.1 billion in 1991, \$2.0 billion in 1992, \$2.4 billion in 1993, and \$1.9 billion in 1994. In sum, Texas banks have reduced or curtailed unnecessary expenses, have improved efficiency, and have taken advantage of relatively wide spreads between short-term and long-term interest rates.

Texas banks had total assets of \$188.124 billion in 1994, and the ratio of net income to net assets represented an annualized return on assets of over 1 percent. Total loans, total equity capital, and total assets **all** rose in 1993 and 1994. Most loan growth in 1993 and 1994 was in consumer real estate, **but even business** lending rose for the first time since 1985. Total bank loans reached \$99.8 billion by the end of 1994.

Consolidations of banks and other financial institutions is ongoing. As a result of a trend toward larger banks with multiple branches, Texas now has fewer than 1,000 operating banks, with 991 at the end of 1994. This is down from 1,125 three years earlier. It is expected that the number of banking organizations in the state will continue to shrink, although the number of branch locations will rise.

The trend toward consolidations has been even more prevalent in the savings and **loan** industry. After the real estate debacle of the mid- to **late-1980s**, thrift institutions were saddled with mountains of foreclosed property worth less than the original loan values. Texas had 273 savings and loans in 1984. But most of the state's thrifts lost money each year from 1986 through **1991**, and the majority of them closed their doors. Texas had only 61 state and federal savings and loans in operation at the beginning of 1995, although profits have been healthy since 1991. Twenty-seven state thrifts had assets of \$9.8 billion. and 34 federal thrifts has assets of \$46.8 billion.

Texas savings and loans posted a record \$705 million profit in 1992 and led the nation in earnings during 1993. Market forces reduced profits **somewhat** in 1994, as a rise in short-term interest rates reduced the profit margin between the cost of S&L borrowing and the **profits** made on loans. Also, the frenzied demand for mortgage refinancing in **1992** and 1993 was gone in 1994. Still Texas savings and loans were profitable, with a return on assets of 0.88 percent at the end of 1994.

Construction

Since the fall of 1993, construction has been the **state's** fastest-growing industry, with employment growth from April 1994 to April 1995 at 7.1 percent. After a **boom/bust** cycle in the **1980s**, the Texas construction industry **bottomed** out in early 1989, with 317,300 employees. But spurred by lower mortgage rates, employment grew steadily over the next few years, to **359,000** by the end of 1993, and "boomed" through 1994 to reach 408,000 by March 1995.

Residential building permits throughout the state and its major metropolitan areas have risen at double-digit annual rates since 1990. Total residential building, permits rose from 40,916 in 1989 to 76,144 in 1993 and 94,000 in 1994. The increases in recent years are attributed in large part to lower mortgage rates and net in-migration, with most of the increase being in single-family residential building. Multi-family building: activity has begun to follow suit, with the number of starts more than doubling from 11,600 in 1993 to 27,000 in 1994.

Even nonresidential real estate markets have seen some growth, although at a slower pace than residential construction. After bottoming out at 58.7 million square feet in 1989, nonresidential construction levels have increased each year, to 87.8 million square feet in 1994. The outlook is for continued long-range increases in business construction, since many out-of-state firms are searching for industrial **properties** in Texas. Current low real estate and labor costs are causing relocations to **Texas**, and the 1980s glut of vacant office space mostly has been absorbed.

Nonresidential construction activity in Houston is resulting from increases in exports, major investments in petrochemicals, an expanding service sector and important growth in the Texas Medical Center. The Dallas/Fort Worth area is now one of the most popular places in the country for business locations. San Antonio's local initiatives in tourism and biomedical activity are producing tangible results. Austin is drawing high-tech manufacturing and service centers from California's Silicon Valley, and El Paso is strategically positioned over the long term to benefit from increased international business spawned by the North American Free Trade Agreement.

Property Values

The total value of taxable property in the State reached \$644.7 billion as of January 1, 1994 according to records maintained by the Comptroller's Property Tax Division. This represents a 2.7 percent increase in tax base from the previous year, and the second consecutive year total value rose.

This increase was broad-based with 9 of 13 categories of real property posting some increases. Leading the growth was a resurgence in the value of residential property in the state. After allowing for exemptions, the taxable value of single-family residences in Texas rose 7.7 percent from \$230.7 billion in 1993 to \$248.5 billion in 1994. Nearly matching this rate of growth was a 7.6 percent increase in the taxable value of multi-family property*

The value of commercial and industrial real estate, however, rose more slowly from 1993 to 1994. Commercial real estate value climbed only 0.5 percent from \$89.5 billion to \$90.0 billion. Industrial real estate values, after deducting exemptions grew at a slightly higher rate of 1.5 percent from 1993 to 1994.

Reflecting the fact that early 1994 was just the very beginning of a recovery in the Texas real estate market, the value of vacant lots actually slipped slightly from \$19.3 billion in 1993 to \$19.2 billion in 1994. But the steepest drop in property values was seen in oil, gas, and mineral-bearing real estate. This category dropped 13.3 percent, falling from \$41.8 billion in 1993 to \$36.3 billion in 1994.

Taxable Value of Property in Texas School Districts
Table A-28

<u>Year</u>	<u>Billions</u>	<u>Percent Change</u>
1985	\$702.3	N/A%
1986	691.9	-1.5
1987	668.7	-3.4
1988	646.1	-3.4
1989	631.3	-2.3
1990	630.1	-0.2
1991	627.2	-0.5
1992	621.1	-1.0
1993	627.7	1.1
1994	644.7	2.7

Source: State Property Tax Board Publications. Property Tax Division. Texas Comptroller of Public Accounts.

DEMOGRAPHIC INFORMATION

Geography and Cities

The State is located in the West South Central United States and is bordered on the south by Mexico and the Gulf of Mexico and on the north, east and west by the states of Louisiana, Oklahoma, Arkansas and New Mexico. The State is the second largest by size among the states of the United States, covering approximately 266,807 square miles.

The capital of the State is Austin (population 492,329), and the largest city in the State is Houston (1,690,180). Other major cities include Arlington (275,907), Corpus Christi (266,412), Dallas (1,022,497), El Paso (543,813), Fort Worth (454,430), Garland (191,186), Lubbock (187,941) and San Antonio (966,437). Houston, Dallas and San Antonio are respectively the fourth, 7th and 10th largest cities by population in the United States. Over one-half of the State's population (53.9 percent) resides in the Consolidated Metropolitan Statistical Area including Dallas and Fort Worth (population 4,362,476), the Houston Consolidated Metropolitan Statistical Area (4,098,789), and the San Antonio Metropolitan Statistical Area (1,437,286). The foregoing city population figures are U.S. Bureau of the Census estimates as of July 1992. The Metropolitan Statistical Area population figures are U.S. Bureau of the Census estimates as of July 1994. The Metropolitan Statistical Area figures are based on the revised MSA definitions effective December 31, 1992. The State has 27 Metropolitan Statistical Areas and Primary Metropolitan Statistical Areas located within its borders.

Population

Based on U.S. Bureau of the Census figures, the average annual population growth rate for the State between April 1980 and April 1990 was 1.8 percent, twice the national rate of 0.9 percent. Estimates prepared by the Comptroller's Office indicate that migration accounted for about 38 percent of the State's population growth during the 1980s, while in the 1970-1980 decade migration accounted for 59 percent of the State's growth.

Between April 1990 and July 1994, the State's population grew by an average of 1.9 percent per year, compared to U.S. growth of 1.1 percent per year. Comptroller's Office estimates indicate migration has become a more important growth factor for Texas in the 1990s, accounting for 58 percent of the 1990-94 growth. As of July 1994, Texas has surpassed New York to become the nation's second most populous state.

The median age of the state's population was 30.8 years in the 1990 census, as compared to 32.9 years for the United States. The following table sets forth information concerning the composition of the state's population, by age group, along with comparable information for the United States.

According to the 1990 census, the State's population of persons under 18 years of age was 4,857,469, giving the State the second largest population of this age group among the states. The State's population of persons 65 years and older was 1,708,443, giving the State the 5th largest population in this age group among the states.

The State's population has become increasingly more urban during the century. In 1900, the U.S. Bureau of the Census categorized 17.1 percent of the State's residents as urban, compared to a national average of 39.6 percent. By 1990, 80.3 percent of the State's residents lived in urban areas, while a smaller share of the nation's population — 75.2 percent — was categorized as urban.

The racial and ethnic population shares for the State, according to the 1990 census, are as follows: 60.6 percent Non-Hispanic White, 25.6 percent Hispanic, 11.6 percent Non-Hispanic Black, and 2.2 percent Non-Hispanic "Other." Almost one-fifth of the nation's Hispanic population — 4,339,905 out of 22,354,059 — live in Texas. Only one other state, California, has a larger Hispanic population than Texas.

The following table sets forth information concerning the state's population during the current century.

**Historical Review of Population
Table A-29**

<u>Month/Year</u>	<u>Texas Resident Population</u>	<u>Average Annual Change</u>	<u>Populatioo Rank Among States</u>
April 1970	11,196,730	1.6	4
April 1980	14,225,517	2.4	3
April 1990	16,986,335	1.8	3
July 1991	17,343,807	1.7	3
July 1992	17,666,863	1.9	3
July 1993	18,021,742	2.0	3
July 1994	18,378,185	2.0	2

Source: U.S. Bureau of the Census.

**Composition of State Population by Age Group
Table A-30**

<u>Age Group</u>	<u>Texas</u>			<u>united states</u>		
	<u>April 1980</u>	<u>April 1990</u>	<u>April 1980</u>	<u>April 1990</u>	<u>July 1994</u>	<u>July 1994</u>
0-4 years	8.2%	8.4%	3.5%	7.2%	7.5%	7.6%
5-17 years	22.0	20.2	20.4	20.8	18.2	18.5
18-24 years	14.0	11.2	10.4	13.3	10.8	9.7
25-44 years	28.3	33.1	32.1	27.7	32.4	31.9
45-54 years	9.6	9.5	11.0	10.1	10.1	11.5
55-64 years	8.3	7.6	7.5	9.6	8.5	8.1
65 years & older	9.6	10.1	10.2	11.3	12.5	12.7

Source: U.S. Bureau of the Census.

EDUCATION

Primary and Secondary Education

Primary and secondary public education in the State is provided by 1,046 regular **school districts**, which in the 1993-94 school year operated 6,343 campuses, including 3,512 elementary schools, 1,194 junior and middle schools, 1,176 high schools and 461 combined elementary and secondary schools. These numbers do not include private elementary and high schools. Approximately 6 percent of the total student enrollment attend private schools based on data compiled by the U.S. Bureau of the Census.

All public and secondary schools are administered locally by elected school boards and county school trustees and on the state level by the State Board of Education and the Texas Education Agency, which is comprised of the State Commissioner of Education and the State Department of Education. The State Board of Education is the state's policy-making and planning body for the public school system. Members of the State Board of Education are elected for staggered four-year terms. The State Commissioner of Education is appointed by the Governor, and confirmed by the Senate and is the executive head of the Texas Education Agency. The State Department of Education is the professional, technical and clerical staff of the Texas Education Agency.

According to the Texas Education Agency, student enrollment for the 1993-1994 year totaled 3,601,839. All children between the ages of 6 and 17 are required to attend school. School districts offer pre-kindergarten programs for eligible three-year olds and four-year olds. Minority students account for 52.3 percent of the total student population, with the Asian and American Indian population increasing at the greatest rate. Hispanic students make up 35.5 percent, African American students 14.3 percent, Asian and American Indians 2.5 percent, and white 47.7 percent of the total student enrollment.

For the 1993-94 school year, there were 226,560 full-time equivalent teachers, 28,242 professional support staff, 14,888 administrators, 38,817 instructional aides in the public schools, and 125,643 auxiliary staff. The average teacher salary for 1993-94 was \$30,519 including career ladder supplements.

For the 1993-94 school year, total revenues budgeted for public education from state, local and federal sources were \$17.3 billion, not including revenue raised for capital construction through the issuance of debt. Of that total, \$7.2 billion came from state sources, \$8.7 billion from local sources, and \$1.4 billion from federal sources. In 1993-94, districts budgeted an average of \$4,805 per pupil.

The State shares in the cost of public primary and secondary education with local districts. State funding for primary and secondary education is provided through the Permanent School Fund, the Available School Fund and the Foundation School Program. The Permanent School Fund is an endowment fund consisting of state lands, the sale of lands, and royalty earnings. The fund is available for investment only: the investment income is deposited along with one-quarter of the motor fuels tax in the Available School Fund for distribution to school districts. As of August 31, per the 1994 Annual Cash Report, the book value of the Permanent School Fund was \$8.6 billion. Under the terms of the State Constitution, the Permanent School Fund may not be used for appropriation, but it may be used to guarantee bonds issued by school districts.

Estimated major expenditures for the 1996-1997 biennium from the Available School Fund includes a transfer of \$325 million for state purchased textbooks and \$2.2 billion in payments to school districts based on each district's prior year count of students in Average Daily Attendance. The Foundation School Program allocates state funds to public schools based on a system of formulas. This financing system is composed of a series of allotments designed to ensure that each school district can provide an instructional program to meet the needs of its students. The Legislature appropriates funds to the Foundation School Program based on a district's tax effort, property tax base and various student counts. If legislative appropriations are less than the amount required to fund the program for any given year, each district's allocation may be decreased.

Beginning with the 1989-90 school year, the Foundation School Program underwent significant changes. The alterations required local school districts to raise their share of the foundation school program and tax at a minimum rate. A guaranteed yield program was initiated to provide additional funds to districts. Districts are able to qualify for additional state aid for each penny of tax rate they levy over a base rate.

In 1984, a group of property poor school districts and the Mexican-American Legal Defense and Education Fund filed **Edgewood v. Bynum** (later Kirby) against the school finance system, challenging the state's school finance system as unconstitutional.

In April 1987 State District Judge Harley Clark ruled in favor of the 67 property-poor districts finding the state's public school funding system unconstitutional. Two subsequent school finance plans were drafted by the Legislature in June 1990 and April 1991, but each was declared unconstitutional. The first plan was declared unconstitutional in September 1990 by the district court, and the second, in January 1992 by the Texas Supreme Court. A proposed constitutional amendment on school finance was defeated on May 1, 1993.

Finally in late May 1993, legislators passed SB 7, 'which directed the state's 98 wealthiest school districts to choose from among five alternatives for sharing their overall property wealth with other, poorer districts. Judge McCown ordered that the plan be utilized during the 1993-94 school year.

On December 10, 1993, Judge McCown of the 250th District State Court, upheld the constitutionality of SB 7. He ruled, however, that the legislature has still not met its constitutional responsibility "to provide efficiently for facilities." Accordingly, he ruled that school districts may not issue bonds utilizing unequalized tax efforts after September 1, 1995, unless the Legislature has provided for the efficient, equitable funding of facilities by that date.

On May 25, 1994, representatives from property-rich and property-poor districts appealed the case to the Texas Supreme Court.

The Texas Supreme Court issued its opinion on January 30, 1995. The court upheld all provisions of SB 7 and overturned the lower court's mandate to provide additional funding for school facilities in property-poor districts. The court ruled that convincing evidence of an inability to provide facilities had not been presented, but that the absence of a separate funding source for facilities could cause the court to declare the entire finance system unconstitutional. The court also cautioned of the appearance of a constitutionally-prohibited **state ad valorem** tax if all districts were forced to tax at the capped value to maintain standards.

The Texas Legislature, during its most recent session, created a new \$170 million school facilities construction funding program targeted primarily at property-poor school districts. The Legislature also modified the \$1.50 total tax rate cap of SB 7, replacing it with a \$1.50 Maintenance and Operations tax rate cap. A school **district** must demonstrate a projected ability to pay for all debt issued after September 1, 1992 from a tax rate not to exceed \$0.50. Old debt continues to be unlimited for tax rate cap purposes.

Educational Achievement

According to a 1991 survey by the U.S. Bureau of the Census, 76.6 percent of the state's population 25 years of age and older had completed four or more years of high school, as compared to an average of 78.4 percent for the nation. In addition, 21.1 percent of the State's population 25 years of age and older had completed four or more years of college, as compared with a national average of 21.4 percent.

Higher Education

The State has 138 public and private colleges and universities, including 96 state-supported institutions (35 general academic institutions, 9 medical and veterinary schools, and 54 community/junior and technical colleges) and 40 private colleges and universities. The enrollment in all colleges and universities in the State in the fall of 1994 was **approximately 928,000**. Higher education in the State at public and, to a lesser extent private institutions is supervised by the Texas Higher Education Coordinating Board, which has authority over program offerings and the use of certain monies appropriated by the Legislature for higher education. The higher education institutions are under the control of separate boards of regents.

Public higher education in the State is funded through a combination of tuition, student fees and other local funds (including gifts from benefactors), income from the Permanent University Fund and appropriations made by the Legislature. Tuition rates are set by the **Legislature**, except that institutions may double the tuition rate for graduate students. Many student fees are **set** by the boards of regents of the various colleges and universities.

Tuition for general academic institutions is \$30 per semester credit hour in 1995-1996 for residents. Tuition will increase by \$2 per **semester** credit hour each year until it reaches \$40 in **2000-2001**. Nonetheless, resident tuition rates at public institutions will remain among the **lowest** in the nation. Nonresident tuition is \$171 per semester credit hour in 1994-1995 and \$222 in 1995-96. Until 1995, nonresident tuition was set **at** the cost of instruction, as **determined** biennially by the Coordinating Board. In May 1995 the 74th Legislature passed HB 1792, which increases nonresident tuition to equal the average nonresident tuition charged by the five most populous states, excluding Texas. In addition, the Legislature approved HB 2495 which transfers the Baylor College of Dentistry to the Texas A&M University (TAMU) System. The transfer is to be effective on September 1, 1996, if approved by the TAMU System board of regents and by the Baylor College of Dentistry board of trustees. Baylor previously had been an independent institution receiving **state** support.

The Permanent University Fund (**PUF**) is a permanent endowment fund with a market value of \$4,427,985,108, as of August 31, 1994, according to The University of Texas (UT) System which administers the fund. Income from the fund is dedicated first to payment of debt service of PUF bonds which may be used for capital improvement at certain institutions in the UT and TAMU systems. The amount of PUF bonds that may be issued is limited to 30 percent of the book value of the fund. The residual amount of income of the **PUF**, after debt service, is dedicated to excellence programs for The University of Texas at Austin, Texas A&M University (College Station) and Prairie View A&M University.

In May 1995 the 74th Legislature passed HB 1877, which allows the UT System board of regents to delegate investment authority and contract for the investment of the PUF. The board may enter into a contract with a non-profit corporation for the corporation to invest funds under the control and management of the board, including the PUF. The corporation may not engage in any business other than investing funds designated by the board under the contract.

The Constitution requires the appropriation of the first \$100 million coming into the State Treasury, and not appropriated by the Constitution for other purposes, to certain public higher education institutions not within the UT and TAMU systems, except for the six institutions recently added to the two systems. These funds are to be used for capital needs and excellence programs. The Constitution also authorizes the issuance of bonds on behalf of the State to finance capital improvements for public higher education institutions and to fund a student loan program. (See "State Debt.") In May 1993 the 73rd Legislature passed HB 1207 which increased the amount of the annual appropriation to this fund—the Higher Education Assistance Fund (~~HEAF~~) to \$175 million, beginning in 1995. Also beginning in 1995, the first \$50 million coming in to the State Treasury at the beginning of each fiscal year that is not dedicated by other law is placed into the HEAF. This will continue until the fund reaches \$2 billion.

A class action suit was filed on December 6, 1987, on behalf of the League of United Latin American Citizens, nine organizations and 21 individuals, alleging the state discriminated against Mexican-American students by denying them equal access to first class universities. The suit was tried in Brownsville before State District Judge Ben Euresti.

On November 20, 1991, the jury found that the state did not discriminate against Mexican-Americans, but that the Legislature had failed to provide border residents with equal access to first-class universities. However, on January 21, 1992, Judge Euresti overturned the jury verdict and ruled that the state's higher education system violated the state constitution.

In 1993, as part of its continuing South Texas/Border Initiative, the 73rd Legislature appropriated funds and authorized issuance of revenue bonds to expand programs and facilities, primarily at institutions in the border area. On October 6, 1993, the Supreme Court overturned Judge Euresti's decision and held that the method of financing higher education was ~~not~~ in violation of the state's constitution.

In May 1995, the 74th Legislature passed HB 1214 creating the Texas Tomorrow Fund. The Fund is a prepaid tuition program, allowing individuals and groups to pre-purchase two or four years of college tuition and fees at both public and private institutions. Payments could be made in a lump sum or through periodic payments that may stretch until the prospective student graduates from high school. The Fund will be governed by a seven-member board with the Comptroller of Public Accounts serving as both the chair and executive director of the board. The Comptroller's office will administer the program, which is to begin selling contracts in January 1996.

RETIREMENT SYSTEMS

The State operates three **defined-benefit** retirement systems: the Teacher Retirement System of Texas ("TRS"), the Employees Retirement System of Texas ("ERS") and the Judicial Retirement System of Texas ("JRS"). In addition, state employees, except those compensated on a fee basis, are covered under the federal Social Security System. Political subdivisions of the State may voluntarily provide coverage for their employees under the state's agreement with the federal Social Security Administration.

TRS is the largest of the three retirement systems, with 593,065 members and 132,577 annuitants as of August 31, 1994. TRS provides benefits to teachers employed by local school districts within the State and faculty members of state-supported institutions of higher education. In addition, TRS administers the Texas Public School Employees Group Insurance Program, which was established by legislation enacted in June 1985, and provides health insurance to TRS retirees and active employees of school districts which elect to participate in the program beginning with the 1996-97 school year.

ERS covers state employees and law enforcement and custodial officers and, as of August 31, 1994, had 154,055 active members and 32,840 annuitants. ERS also administers the state's Uniform Group Insurance Program, which

provides insurance coverage to active and retired state employees and their families and employees of Texas higher education institutions. The Comptroller of Public Accounts administers the state's participation in the federal Social Security program, including the collection of employee and employer **FICA** contributions from state agencies and local governmental units. JRS provides benefits to judicial officers of the State and, with **551** active members and 379 annuitants, is the smallest of the three systems. JRS is administered by ERS although, technically, it is a separate entity.

TRS and ERS are maintained on an actuarial basis. As of August 31, 1994, the unfunded actuarial liability of TRS was approximately \$825 million and the overfunded actuarial liability of ERS was approximately \$619.4 million. The period required to amortize unfunded actuarial liability of TRS, given the current contribution rates, benefits and actuarial assumptions (which changed significantly for TRS during fiscal 1994), was estimated to be 2.2 years. Prior to 1985, JRS was maintained on a pay-as-you-go basis. However, legislation enacted in June 1985 divided JRS into two plans by changing the name of the existing plan and establishing a second, separate plan. The new plan, known as JRS Plan Two, is to be maintained on an actuarially sound basis and covers individuals who become judicial officers after September 1, 1985. The unfunded actuarial liability of JRS Plan Two as of August 31, 1994, was \$4 million. The old plan, now known as JRS Plan One, is maintained on a pay-as-you-go basis and covers judicial officers who were active on September 1, 1985, or had retired before that date. The TRS market value of investments, as of August 31, 1994, was \$38.9 billion; the fund's book value on that date was \$33.3 billion. The ERS market value of pooled investments as of August 31, 1994, was \$10.18 billion; the fund's book value on that date was \$9.45 billion.

Contributions to each of the three retirement systems are made by both the State and the covered employees. The Texas Constitution mandates a state contribution rate of not less than 6 percent or more than 10 percent of payroll; member contributions may not be less than 6 percent of payroll.

For the 1996-97 biennium, the Legislature set the state's contribution rates to the retirement systems at the following rates: ERS and TRS at 6 percent of payroll, and JRS Plan Two at 16.54 percent of payroll. Member contribution rates are 6 percent for ERS and JRS Plan Two and 6.4 percent for TRS.

In 1985, the Legislature, by statute, prohibited the implementation of changes in the ERS and TRS systems that would cause the period required to amortize the unfunded actuarial liability of either plan to exceed 31 years. In addition, the legislation creating JRS Plan Two specifies that the state's contribution to that plan each year will be in an amount required to finance the plan fully without any unfunded liability. Prior to the adoption of these measures, the State had no official limit on the amortization period for unfunded actuarial liability, although the management of both ERS and TRS had adopted an informal policy of limiting the period to 30 years.

The following table sets forth selected financial information concerning each of the three state-operated retirement systems for the fiscal year ended August 31, 1994.

Selected Financial Information Regarding State-Operated Retirement Systems
Table A-31

	Teacher Retirement System	Employees Retirement System	Judicial Retirement System
Contributions and Investment Income	\$ 6,110,240,766	\$ 1,185,552,000	\$20,573,000
Benefits and Refunds Paid	\$ 1,737,344,342	\$ 458,062,000	\$14,055,000
Book Value of Assets			
Available for Benefits..	\$33,294,796,555	\$9,160,071,000	\$17,683,000
Investments to Benefits and Refunds Paid Ratio..	19.16:1	20.00:1	1.26:1
Revenue to Payout Ratio..	3.52:1	2.59:1	1.46:1

Sources: Annual Financial Report. Fiscal Year ended August 31, 1994.
Employees Retirement System of Texas and Teacher Retirement System of Texas

The state's retirement systems **were** created and are operated pursuant to statutes enacted by the Legislature. **The** Legislature has the authority to modify these statutes and, accordingly, contribution rates, benefits, benefit levels and such other aspects of each **system** as it deems appropriate, including the provisions limiting changes that increase the amortization period for unfunded actuarial liability of any plan. The state's retirement systems are not subject to the funding and vesting requirements of the Employee Retirement Income Security Act **of 1974**, as amended ("**ERISA**"), although Congress has from time to time considered **legislation that would** regulate pension funds of public bodies.

LITIGATION

The State is a party to various legal proceedings relating to its operations and governmental functions but, unrelated to the Bonds or the security for the Bonds. In the opinion of the State **Attorney** General, based on the advice of the State Comptroller of Public Accounts as to materiality, none of such proceedings, if finally decided adversely to the State, would have a materially adverse effect on the long-term **financial** condition of the State.0

Vinson & Elkins

ATTORNEYS AT LAW

VINSON & ELKINS L.L.P.
ONE AMERICAN CENTER
600 CONGRESS AVENUE

AUSTIN, TEXAS 78701-3200

TELEPHONE (512) 495-8400

FAX (512) 495-8612

Appendix B

WRITER'S TELEPHONE

**BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
CONSTITUTIONAL APPROPRIATION BONDS
(THE UNIVERSITY OF TEXAS — PAN AMERICAN)
SERIES 1995, DATED DECEMBER 1, 1995
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$26,000,000**

WE HAVE ACTED AS BOND COUNSEL to the Board of regents of The University of Texas System (the "Board") in connection with the issuance by the Board of the bonds described above (the "Bonds"). The Bonds are issuable only as fully registered bonds in the denomination of \$5,000 principal amount or any integral multiple thereof. The Bonds bear interest from December 1, 1995 until maturity, payable on February 15, 1996 and on each August 15 and February 15 thereafter until maturity, at the respective rates of interest per annum and maturing on the dates and in the respective amounts set forth below:

<u>Due August 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
1996	\$2,330,000	_____ %
1997	2,120,000	_____ %
1998	2,300,000	_____ %
1999	2,400,000	_____ %
2000	2,505,000	_____ %
2001	2,615,000	_____ %
2002	2,735,000	_____ %
2003	2,860,000	_____ %
2004	2,995,000	_____ %
2005	3,140,000	_____ %

THE BONDS ARE BEING ISSUED pursuant to a resolution adopted by the Board on November 9, 1995 (the "Bond Resolution"), for the purpose of any paying the "Project Costs" of certain "Eligible Projects" (as such quoted terms are defined in the Bond Resolution) for The University of Texas — Pan American ("Pan American"). The Bonds are special obligations of the Board and are equally and ratably payable solely from, and secured solely by a pledge of, up to fifty percent (50%) of the money allocated annually to the Board for Pan American pursuant to Article VII, Section 17 of the Texas Constitution, as amended, and "The Excellence in Higher Education Act," Chapter 62, Texas Education Code, as amended, for each fiscal year starting with the fiscal year that

HOUSTON DALLAS WASHINGTON, D.C. AUSTIN MOSCOW LONDON MEXICO CITY SINGAPORE

began on September 1, 1995 and ending with the fiscal year that ends on August 31, 2005, **from** the \$175 million annual constitutional appropriation during each such fiscal year out of the first money coming into the Texas Treasury and not otherwise appropriated by the Texas Constitution to be **used** by certain eligible agencies and institutions of higher education, which are the “Pledged Revenues” defined in the Bond Resolution. The Board has reserved the right to issue other obligations on a parity with the Bonds, and to make certain amendments to the Bond Resolution with the approval of the owners of 51% of the outstanding principal amount of the Bonds.

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

IN OUR CAPACITY AS BOND COUNSEL, we have examined applicable provisions of the Constitution and laws of the State of Texas and a transcript of certain materials pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board; customary certificates, affidavits and other documents executed by officers, agents and representatives of the Board, the State of Texas and others; and other certified showings related to the authorization and issuance of the Bonds. We have also examined fully executed Bond No. R-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT:

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

(b) The Board has duly adopted- the Bond Resolution, which resolution duly authorizes the issuance, sale, execution and delivery of the Bonds. Authorized representatives of the Board have duly executed the Bonds, and the Bonds have been duly registered and delivered to the initial purchasers thereof. The Bonds constitute legal, valid and binding special obligations of the Board payable solely from, and secured solely by a pledge of, Pledged Revenues (as defined in the Bond Resolution); provided, however, that the enforceability of certain provisions of the Bonds and the Bond Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors and by general principles of equity that permit the

exercise of judicial discretion. The form and execution of executed Bond No. R-1 are regular and proper.

(c) The Bonds are issued and delivered pursuant to and in accordance with the Bond Resolution and the Constitution and laws of the State of Texas, particularly Article VII, Section 17 of the Texas Constitution, the “Excellence in Higher Education Act,” Chapter 62, Texas Education Code, Section 65.46, Texas Education Code, and Article 717q, Texas Revised Civil Statutes Annotated, all as amended. The Bonds are not general obligations of the Board but are special, limited obligations payable solely from Pledged Revenues, and not from any other revenues, funds or assets of the Board.

IT IS OUR FURTHER OPINION THAT:

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

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

In providing the opinions set forth in paragraphs (i) and (ii) above, we have relied on representations of the Board and its authorized representatives with respect to matters solely within the knowledge of the Board which we have not independently verified, and we have assumed continuing compliance with the covenants in the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Board fails to comply with the foregoing covenants of the Bond Resolution, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

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

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have

incurred or continued indebtedness to purchase or carry tax-exempt obligations. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

NOTICE OF SALE
AND
BIDDING INSTRUCTIONS

On

\$26,000,000
BOARD OF REGENTS OF THE **UNIVERSITY** OF TEXAS SYSTEM
CONSTITUTIONAL APPROPRIATION BONDS
(THE UNIVERSITY OF TEXAS - PAN AMERICAN)
SERIES 1995

THE SALE

Bonds Offered For Sale At Competitive Bidding

The Board of Regents of The University of Texas System (the "Board") is offering for sale its **\$26,000,000** Constitutional Appropriation Bonds (The University of Texas - Pan American) Series 1995 (the "Bonds").

Address of Bidg

Sealed bids, plainly marked "Bid for Bonds", should be addressed to "Director of Finance, The University of Texas System" (the "Director"), and delivered to 201 West 7th Street, **Ashbell** Smith Hall, 2nd Floor, Austin, Texas 78701, prior to **10:00 AM, CST, on** the date of the bid opening described below. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

Place and Time of Bid Opening

The Board will **accept** bids for the sale of the Bonds on a day during the six week period beginning December 8, 1995 and ending January 19, 1996. At least 24 hours prior to the sale of the Bonds, the **Director** will communicate, through **MUNIFACTS** NEWS SERVICE, the date and time for submission of bids. **The** Director, acting on behalf of the Board, shall accept bids up to the time specified in the notice as hereinbefore described. The Authorized Representative, defined below, shall accept the winning bid or reject any and all bids submitted.

Award of the Bonds

On November 9, 1995, the Board authorized the Chancellor, the Executive Vice Chancellor for Business Affairs, the Assistant Vice Chancellor for Business Affairs and the Director of Finance (each the "Authorized Representative") to receive bids, to award the Bonds 'or reject all bids **on** the date of the bid opening. **THE AUTHORIZED REPRESENTATIVE RESERVES THE RIGHT TO REJECT ANY OR ALL BIDS, AND TO WAIVE ANY IRREGULARITIES, EXCEPT TIME OF FILING OF A BID.**

THE BONDS

Description

The Bonds will be dated December 1, 1995 (the "**Bond Date**"), and interest will accrue from December 1, 1995, and is payable on February 15 and August 15 of each year, commencing February 15, 1996, calculated on the basis of a **360-day** year composed of twelve **30-day** months. The **Bonds** will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The **Bonds** will mature on August 15 in each year as follows:

MATURITY SCHEDULE

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
1996	\$ <u>2,330,000</u>	2001	\$ <u>2,615,000</u>
1997	<u>2,120,000</u>	2002	<u>2,735,000</u>
	<u>2,300,000</u>	2003	<u>2,860,000</u>
1998	<u>2,400,000</u>	2004	2 , 9 9 5
2000	<u>2,505,000</u>	2005	<u>3,140,000</u>

Book-Entry Only System

The **Board** intends to utilize the **Book-Entry** Only System of The Depository Trust Company ("DTC"). See "THE BONDS - Book-Entry Only System" in the **Official** Statement

No Redemption

The **Bonds** are not subject to redemption prior to stated maturity.

Paying Agent/Registrar

The Board shall act as the initial Registrar for the **Bonds** and the Texas State Treasurer shall act as the initial Paying Agent

SECURITY FOR THE BONDS

Pledge Under Resolutioq

The Bonds are special obligations of the Board secured solely by and payable solely **from** a pledge of the Pledged Revenues which consist of up to fifty percent (50%) of the amount allocated to **The** University of Texas - Pan American pursuant to article **VII**, section 17 of the Texas Constitution, as amended and The Excellence in Higher Education Act, Chapter 62, Texas Education Code, as amended, **from** the **\$175** million annual constitutional appropriation in each fiscal year (beginning September 1, 1995) for certain eligible agencies and institutions of higher education out of the first money coming into the State Treasury not otherwise appropriated by the Texas Constitution. **THE BONDS ARE NOT A GENERAL OBLIGATION OF THE BOARD, THE SYSTEM, OR THE STATE OF TEXAS. OWNERS HAVE NO RIGHTS AGAINST ANY OTHER ENTITY OF THE STATE OF TEXAS NOR THE PHYSICAL PROPERTY PROVIDED BY THE BONDS NOR ANY FUNDS TO BE RAISED BY TAXATION EXCEPT THOSE APPROPRIATED FOR SUCH PURPOSE.**

Additional Oblinatioq

Board may issue additional Parity Obligations to provide funds for new construction, renovation of existing facilities, and acquisition of equipment

Further details regarding the **Bonds** are set forth in the Official Statement.

CONDITIONS OF THE SALE

Type of Bids and Interest Rates

The Bonds will be **sold** in one block on an "All or None" basis, and at a **price** of not less than their par value plus accrued interest to the date of delivery of the Bonds. Bidders are invited to name the rate(s) of interest **m** be borne by the Bonds, provided that **(i) each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1%, with all of the Bonds of the same maturity bearing the same interest rate, (ii) the maximum interest rate per annum borne by any Bond must not exceed 15%, and (iii) the highest interest rate on any Bond must not exceed the lowest interest rate on the Bonds by more than 4 %.** No limitation is imposed upon bidders as **m** the **number** of rates or changes which may be used. No bids involving supplemental interest rates will be considered. Each bidder shall state in the bid the total interest cost in dollars, the net effective interest rate determined thereby (calculated in the manner prescribed by Article **717k-2**, VATCS), and the true **interest** cost calculation, all of which will be considered informative only and not **a** part of the bid.

Basis for Award

The sale of the Bonds will be awarded **m** the bidder making **a** bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate **m** the Board. The True Interest Cost rate is that rate which, when used **m** compute the total present value as of the Bond Date of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal **m** the sum of the par value of the Bonds plus any premium bid (but not interest accrued from the Bond Date **to** the date of delivery of the Bonds). In the event of a bidder's error in interest cost rate calculations, the interest rates, premium or discount, if any, set forth in the Official Bid Form will be considered as the intended bid.

Good Faith Deposit

A **Good Faith Deposit**, payable to “The University of Texas System” in the amount of \$520,000 is required. Such **Good Faith Deposit** shall be in the form of a bank cashier’s check or a certified check, which is to be retained uncashed by the Board pending the Purchaser’s compliance with the terms of the bid and the Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the Board prior to the opening of the bids, and shall be accompanied by instructions **from** the bank on which drawn which **authorize** its use **as a Good Faith Deposit** by the Purchaser who shall be named in such instructions. The Good Faith Deposit of the Purchaser will be returned to the Purchaser upon payment for the Bonds. No interest will be allowed on the **Good Faith Deposit**, **In** the event the Purchaser should fail or refuse, to take up and pay for the Bonds in accordance with the bid, then said check shall be cashed and accepted by the Board as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened and an award of the Bonds has been made

Historically Underutilized Businesses Participation

The Board encourages historically underutilized businesses to submit bids for the Bonds. Each senior manager of any **underwriting** syndicate that submits a bid for the Bonds is strongly encouraged to include certified historically underutilized businesses in this syndicate.

As used herein, “historically underutilized business” means a) a corporation formed for the purpose of making a profit in which at least 51 percent of all classes of the shares of stock or other equitable securities are owned by one or more persons who have been historically underutilized because of their identification as women or members of certain minority groups, including Black Americans, Hispanic Americans, Asian Pacific Americans and Native Americans; b) a sole proprietorship for the purpose of making a profit that is 100 percent owned, operated and **controlled** by a person described above; or c) a partnership for the purpose of making a profit in which 51 percent of the assets and interest in the partnership is **owned** by one or more persons described above Those persons must have a proportionate interest in the control, operation, and management of the partnership’s affairs.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP Numbers

It is anticipated that **CUSIP** identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser **to** accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. All expenses in relation to the printing or typing of CUSIP numbers on the Bonds shall be paid by the Board; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

Initial Delivery of Initial Bonds

Initial Delivery will be accomplished by the issuance of one Initial Bond for each maturity (also called the "Bond" or "Bonds"), either in typed or printed form, in the aggregate principal amount of **\$26,000,000** payable to the Purchaser, **approved** by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Upon delivery of the Initial Bonds, **they** shall be immediately canceled and **one** Bond for each **maturity** will be delivered and deposited with MC in connection with **DTC's Book-Entry Only System**. Initial Delivery will be at the Austin, Texas office of **Vinson & Elkins LLP.**, 29th Floor, One American Center, 600 Congress, Austin, Texas 78701. Payment **for the Bonds** must be **made** in immediately available funds for unconditional credit to the Board, or as otherwise directed by the Board. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery of the **Initial Bonds** will be made within 30 business days following the award of the Bonds (the "Closing Date"), and it is understood and agreed that the Purchaser will accept delivery **and make payment for the Bonds by 10:00 AM, CST, on the Closing Date, or thereafter on** the date the Initial Bonds are tendered for delivery, up to and including an additional 15 business days following the Closing **Date**. **If for any reason the Board is unable** to make delivery on or before the Closing Date, the Board shall immediately contact the Purchaser and offer to allow the Purchaser **to** extend its offer for an additional 15 business days. If the Purchaser does not elect to extend its offer within six business days thereafter, then its Good Faith Deposit will be returned, and both the Board and the Purchaser **shall** be relieved of any further obligation. In no event shall the **Board** be liable for any damages by reason of its failure to deliver the Bonds, **provided** such failure is due to **circumstances beyond** the Board's reasonable control.

Conditions to Delivery

The obligation **of the Purchaser to take up and pay for the Bonds is subject** to the Purchaser's receipt of (a) the legal opinion of **Vinson & Elkins LLP.**, Houston and Austin, Texas, Bond Counsel for the Board ("Bond Counsel"), (b) the **no-litigation** certificate, and (c) the certification as to the Official **Statement**, all as further described in the **Official Statement**

In order to provide the Board with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating **to** the exclusion of interest on the Bonds from the gross income **of their** owners for federal income tax purposes, the Purchaser will be required to complete, execute, and deliver to the Board (on or before the 6th business day prior to the delivery of the Bonds) a **certification** as to their "issue **price**" **substantially** in the form and to the effect attached hereto or accompanying this **Notice** of Sale and Bidding instructions. In the event the successful bidder will not reoffer the Bonds for sale, such certificate may be modified in a manner approved by the Authorized Representative. **In no event** will the Board fail to **deliver the Bonds as a result of the Initial Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery**. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate by the date of delivery **of** the Bonds, if its bid is accepted by the Board. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

Legal Opinions

The Bonds are offered when, as and if issued, subject to the **approval of the Attorney General** of the State of Texas. Delivery of and payment for the Bonds is subject to the receipt by the

Purchaser of opinions of Bond Counsel, to the effect that the Bonds are valid and binding special obligations of the Board and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under **existing law, subject to** the matters described under "TAX EXEMPTION" in the Official Statement, including the alternative minimum tax on corporations.

Certification of Official Statement

At the time of payment for and Initial Delivery of the Bonds, the Board will execute and deliver to the Purchaser a certificate in the form described in the Official Statement and the Comptroller of Public Accounts will execute and deliver a letter **from** the State in the **form** described in the Official Statement

Change in Tax Exempt Status

At any time' before the Bonds are tendered for delivery, the Purchaser may withdraw its bid if the interest received by private holders on bonds of the same type and character shall **be** declared to be taxable income under present federal **income** tax laws, either by ruling of the Internal Revenue Service or by a decision of any federal court, or **shall** be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

Continuing Disclosure

The Board will agree in **its resolution** (the "Resolution") authorizing issuance of the Bonds to provide certain notices of material events in accordance with Securities and Exchange Commission Rule **15c2-12** ("SEC Rule **15c2-12**") and the **Comptroller** of Public Accounts has agreed (the "Comptroller's Agreement") to provide certain periodic information in accordance with SEC Rule **15c2-12**, all as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." **The** Purchases obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of copies of the **Resolution** and the Comptroller's Agreement containing the agreements described under such caption in addition to the other documents described under the subheading "Conditions to Deliver" above

GENERAL

Blue Sky Laws

By submission of its bid, the Purchaser represents that **the** sale of the Bonds in states other than Texas will be made only pursuant **to** exemptions from registration or, where necessary, **the** Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The Board agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary; provided, however, that the **Board** shall not be obligated **to** execute a general or special consent to **service** of process in any such jurisdiction.

Not an Offer to Sell

This Notice of Sale and **Bidding** Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of **Sale** and Bidding Instructions, the Official Bid Form, and the Official Statement. Prospective Purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

Ratings

Applications for contract ratings on the issue have been made to Fitch Investors Service, Inc. ("Fitch") and Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("S&P"). The results of Fitch's and S&P's determinations will be provided as soon as possible.

The Official Statement and Compliance with SEC Rule 15c2-12

The Board has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule **15c2-12**, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. Representations made and to be made by the Board concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of **Sale** and Bidding Instructions and in the Official Statement

The Board will furnish to the Purchaser, or Purchasers, acting through a designated senior representative, in accordance with instructions received from the Purchaser(s), within seven business days **from** the sale date an **aggregate of 250** copies of a Final **Official** Statement reflecting interest rates and other terms relating to the initial reoffering of the Bonds. The cost of preparation of Final Official Statements in excess of the number specified shall be prepared and distributed at the cost of the Purchaser(s). The Purchaser(s) shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Authorized Representative by the close of the next business day after the award. Except as noted above, the **Board** assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

Additional Copies of Notice, Bid Form, and Statement,

A limited **number** of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the **Official** Statement, as available over and above the normal mailing, may be obtained from Pam Clayton (512) 4994334, The University of Texas System 201 West 7th Street, **Ashbell** Smith Hall, 2nd Floor, Ausdn, Texas 78701.

On the date of the sale, **the** Authorized Representative will **confirm** the approval of the form and content of the Official **Statement**, and any addenda, supplement, or **amendment** thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

JOHN A. ROAN, ASSISTANT **VICE** CHANCELLOR FOR FINANCE
THE **UNIVERSITY** OF TEXAS SYSTEM

_____, 199s

OFFICIAL BID FORM

The Director of Finance
The University of Texas System

_____, 1995

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated _____, 1995 of **\$26,000,000** BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM **CONSTITUTIONAL** APPROPRIATION BONDS (THE **UNIVERSITY OF TEXAS - PAN AMERICAN**) Series 1995, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding -Instructions and Official Statement, we will pay you par plus a premium of ___ and accrued interest from date of issue to date of **delivery** to us for Bonds **maturing** and **bearing** interest as follows:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
8-15-1996	\$ 2,330,000	% _____	8-15-2001	\$ 2,615,000	_____ %
8-15-1997	2 _____	_____ %	8-15-2002	2,735,000	_____ %
8-15-1998	2,300,000	8-15-200% ⁶		2,860,000	_____ %
2-15-1999	2,400,000	% _____	8-15-2004	2,995,000	_____ %
8-15-2000	2,505,000	% _____	8-15-2005	3,140,000	_____ %

Our calculation (**which** is not a part of this bid) of the interest cost from the **above**:

Total Interest Cost	\$ _____
Less Premium	_____
NET INTEREST COST	\$ _____
TRUE INTEREST COST	_____ %

The Initial Bonds shall be registered in the name of _____. We will advise The Depository Trust Company ("**DTC**") of registration instructions at least **five** business days prior to the Closing Date described below.

A bank cashier's check or a certified check of the _____ **Bank**, _____ in the amount of \$520,000 which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Bonds utilizing the Book-Entry Only System through **DTC** and make payment for the Initial Bonds in immediately available funds, pursuant to written direction of the Board, not later than **10:00AM, CST, 0 n_____ 1995** (the 'Closing Date'), or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions.

The undersigned agrees to complete, execute, and deliver to the Board, at least six business days prior to the Closing Date, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the Board.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Authorized Representative by the close of the next business day after the award.

Respectfully submitted,

BY _____

Authorized Representative

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the Board of Regents of The University of Texas System, subject to and in accordance with the Notice of Sale and Bidding Instructions, this the _____.

Authorized Representative,
The University of Texas System

CERTIFICATE OF UNDERWRITER

The undersigned hereby certifies as follows with respect to the sale of \$26,000,000 BOARD OF REGENTS OF THE UNNERSITY OF TEXAS SYSTEM CONSTITUTIONAL APPROPRIATION BONDS (THE UNNERSITY OF TEXAS - PAN AMERICAN) SERIES 1995 (the "Bonds").

1. The undersigned is the **underwriter** or the manager of the **underwriters** and selling group (the "underwriter") which has purchased the Bonds from the Board of Regents of The University of Texas System (the "Issuer").

2. The undersigned has made a bona fide offering of the Bonds to the public and that the Bonds were reoffered to the public at at the prices set forth below.

3. The first price during the initial offering (expressed as a "yield") of each maturity of the Bonds at which a substantial amount hereof (at least 10 % of **the** principal amount of each maturity of the Bonds) has been sold to the public is set forth below:

<u>Principal Amount at</u>	<u>Years of Maturity</u>	<u>Price or Yield</u>	<u>Principal Amount at</u>	<u>Years of Maturity</u>	<u>Price or Yield</u>
\$ <u>2.330.000</u>	1996	_____	\$ <u>2.615.000</u>	2001	_____
<u>2.120.004</u>	1997	_____	<u>2.735.000</u>	2002	_____
<u>2.300.000</u>	1998	_____	<u>2.860.000</u>	2003	_____
<u>2.400.000</u>	1999	_____	<u>2.995.000</u>	2004	_____
<u>2.505.000</u>	2000	_____	<u>3.140.000</u>	2005	_____

4. For purposes of this **certificate**, the term "public" does not include (a) the undersigned, (b) the members of the syndicate, if any **managed** by the undersigned, or (c) any bond houses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers that are related to or controlled by, or are acting on behalf of or as agents for **the** undersigned or **members** of any syndicate in which the undersigned is participating in the sale of the Bonds.

5. The offering price described above reflects current market prices at the time of such sales.

6. The undersigned understands that the statements made herein will be relied upon by the Issuer in its efforts to comply with the conditions imposed by the Internal Revenue **Code** of 1986 and by Bond Counsel in rendering their opinion that the interest on the Bonds is excludable from the gross income of the owners thereof.

EXECUTED and DELIVERED this _____ day of _____, 1995.

(Name of Underwriter or Manager)

By _____

(Title)

3. Permanent University Fund - University Lands: Adoption of New Rate and Damage Schedule on Permanent University Fund Lands Effective January 1, 1996.--
The Board, upon recommendation of the Business Affairs and Audit Committee, rescinded The University of Texas System Rate and Damage Schedule on Permanent University Fund Lands approved by the U. T. Board of Regents in October 1991 and adopted a new Rate and Damage Schedule as set forth on Pages 133 - 139 effective January 1, 1996.

The new Schedule, which will be modified periodically to reflect market changes, increases rates for certain routine operations on Permanent University Fund Lands to ensure that rates are comparable to those charged by private land owners.



RATE AND DAMAGE SCHEDULE
THE UNIVERSITY OF TEXAS SYSTEM
(effective as of 1/1/96)

- A. **Well** Locations, Roads, Miscellaneous
 - B. Geophysical Operations
 - C. New Easements
 - D. Easement Renewals
 - E. Cathodic Protection
 - F. Surface Leases
 - G. Assignments, **Transfers**, Corrections
 - H. Material Source Permits - **Caliche**
 - I. **Minimum Rates**
- Damage Schedule Guidelines

A. WELL LOCATIONS, ROADS, MISCELLANEOUS	RATES
1. New Locations Less than 7,000 Feet Total Depth 7,000 Feet to 13,000 Feet Total Depth More than 13,000 Feet Total Depth	 \$ 2,500.00 \$ 3,500.00 \$ 5,500.00
2. Re-entry Less than 7,000 Feet Total Depth 7,000 Feet to 13,000 Feet Total Depth More than 13,000 Feet Total Depth	 \$ 1,000.00 \$ 1,500.00 \$ 2,500.00
3. Skidding of Rig	\$ 8.50/Rod
4. New Road Construction (Off-lease)	Negotiable
5. use of Roads (Off-lease) Existing Ranch Road Existing Oil Field Road New Roads	 Negotiable Negotiable Negotiable
6. Stacking of Rigs More Than Sixty (60) Days After Well Completion (not to exceed six (6) months)	\$ 200.00/Month

B. GEOPHYSICAL OPERATIONS	RATES
1. 2-D Seismic	Negotiable; not less than \$ 1,200.00/mile
2. 3-D Seismic	Negotiable
3. Gravity Meter and Magnetometer Survey Operations	\$ 200.00/Crew/Day
4. Geochemical Survey Operations	\$ 200.00/Crew/Day
5. Experimental Surveys or Other Experimental Operations	Negotiable

C. NEW EASEMENTS	Consideration/Rod	Damages/Rod	Filing Fee
PIPE LINES			
1. Up to, 4" OD	\$ 5.00	\$ 4.00	\$ 25.00
2. Up to 12" OD	\$ 11.00	\$ 4.00	\$ 25.00
3. Up to 24" OD	\$ 15.00	\$6.00	\$25.00
4. Over 24" OD	Negotiable	Negotiable	\$25.00
5. Temporary Oil, Gas, and Water Lines	\$ 2.00	\$ 2.00	None
6. Parallel or Loop Lines	Prorated per easement document	Negotiable	None
POWER/TELEPHONE LINES			
1. Single Pole Distribution (Up to 33,000 volts)	\$ 3.00	\$ 1.00	\$ 25.00
2. Single Pole Transmission	\$ 3.00	\$ 1.00	\$25.00
3. Single Pole Telephone	\$ 3.00	\$ 1.00	\$25.00
4. Buried Cable	Negotiable	Negotiable	\$ 25.00
5. H-Frame Pole Construction	\$ 6.50	\$ 3.50	\$25.00~
6. Steel Tower Construction	\$ 14.00	\$6.00	\$25.00

D. EASEMENT RENEWALS	Consideration/Rod	Damages/Rod	Filing Fee
PIPELINES			
1. Up to 4" OD	\$ 4.50	None	\$25.00
2. Up to 12" OD	\$ 10.00	None	\$25.00
3. Up to 24" OD	\$ 12.00	None	\$25.00
4. Over 24" OD	Negotiable	None	\$ 25.00
5. Removal or Replacement Lines	None	\$ 3.50	None
6. Temporary oil, gas and water lines off Lease	None	\$ 2.50	None
POWER/TELEPHONE LINES			
1. Single Pole Distribution (Up to 33,000 volts)	\$ 2.00	None	\$25.00
2. Single Pole Transmission	\$ 2.25	None	\$25.00
3. Single Pole Telephone	\$ 2.00	None	\$ 25.00
4. Buried Cable	Negotiable	None	\$ 25.00
5. H-Frame Pole Construction	\$ 5.50	None	\$ 25.00
6. Steel Tower Construction	\$ 8.50	None	\$ 25.00
7. Removal of Buried Cable	None	\$ 2.00	None
8. Removal or Replacement of Lines	None	\$ 1.50	None

E. CATHODIC PROTECTION	Consideration	Damages
On or Adjacent to a Pipeline Within Existing Easement	None	\$ 250.00

F. SURFACE LEASES (Does not include Grazing Leases))	Consideration/Year	Filing Fee
1. Plant S&e and Booster Stations Renewals	\$ 100.00/Acre Based on then current Schedule	\$25.00
2. Tower Site Renewals	\$ 1,000.00 Based on then current Schedule	\$25.00
3. Business and Other Surface Leases Renewals	Negotiable - not less than \$ 500.00/year Negotiable	\$25.00 \$ 25.00

G. ASSIGNMENTS, TRANSFERS, CORRECTIONS	Fee	Filing Fee
Any Assignment, Transfer or Correction	\$500.00	\$ 25.00

H. MATERIAL SOURCE PERMITS - CALICHE	Fee	Reclamation Fee	Pit Entry Fee
1. Opening New Pit	\$ 500.00	\$ 500.00	\$ 1,000.00
2. Caliche for Use on U.T. Lands Only	None	None	\$500.00 Per project
3. Caliche for Use on Lands Other Than U.T. Lands (per yard)			\$500.00 Per project
20,000 Cubic Yards or Less More than 20,000 Cubic Yards	\$ 1.50 Negotiable	\$ 1.00 Negotiable	
4. Source Materials for Highway Construction	Negotiable	Negotiable	\$500.00

I. MINIMUM RATES	
1. New Easements Pipelines Power/Telephone Lines	\$ 500.00 plus Damages \$500.00 plus Damages
2. Easement Renewals Pipelines Power/Telephone Lines	\$ 500.00 \$ 500.00
3. Material Source Permits	\$ 500.00
4. Surface Leases Plant Site and Booster Station Business and Other Surface Leases	\$ 5,000.00/Term \$ 500.00/Year

DAMAGE SCHEDULE GUIDELINES

1. PAYMENTS

- a. Payments made for fees, damages, and filing fees shall each be made by SEPARATE check.
- b. All payments (fees, damages, filing fees, etc.) or correspondence concerning this schedule or these policies shall be mailed to: University Lands, P.O. Box 553, Midland, Texas 79702-0553.
- c. All payments made to The University of Texas System under this Schedule must be made payable to The University of Texas System. The following information should be on the face of the check and/or the transmittal letter:
 - (1) NAME of the operator or lessee
 - (2) TYPE OF PAYMENT (fee, damages, filing fee, etc.; each type of payment must be made by separate check)
 - (3) COUNTY, BLOCK and SECTION where the damage occurred
 - (4) NAME of the affected grazing or surface lessee, if any, and the allocation of damages to each affected lease
 - (5) Applicable Permit, Easement, or document number, if any
- d. All payments due under this Schedule must be made IN ADVANCE of commencing the activity for which payment is made, except:
 - (1) payment for a new location must be made prior to the spud date
 - (2) payment for a re-entry location **may** be made at the expiration or other termination of **the lease**
 - (3) payment for geophysical operation is due within fifteen (15) days after survey completion.
- e. Payment of damages in accordance with this Schedule does not in any way limit the liability of the **payor** in an action at law for any damages caused by acts of negligence or willful misconduct.
- f. Operators on University Lands must also pay damages or compensation for loss of crop production, destruction of plants, and any other damage to personal property. These payments should be made directly to the grazing or surface lessee.

2. NOTICE

- a. The operator or lessee **MUST NOTIFY BOTH** the appropriate University Lands field representative AND the grazing or surface lessee **BEFORE** any operation or activity begins.
- b. Upon the request of the University Lands field representative, the operator or lessee **must** notify the U.T. Lands field representative when the operation or activity is completed.
- c. An operator or lessee shall not remove or use **caliche** or other materials from University Lands without the prior written consent of the appropriate University Lands field representative. The operator or lessee must advise the University Lands field representative prior to each and every removal of such materials, unless advised otherwise by The University of Texas System, West Texas Operations Office.

3. GUIDELINES REGARDING EASEMENTS

- a. Applications must be presented to University Lands-Surface Interests, 808 W. Wall Street, Midland, Texas 79701 or (mailing address) P.O. Box 553, Midland, Texas 79702-0553. All forms and schedules may be obtained from University **Lands-Surface** Interests, (915) **684-4404**.
- b. All easements shall be made on the form document used by The University of Texas System ("U.T.") or in form otherwise acceptable to UT.-

- c. The operator must attach appropriate exhibits to all THREE original colored copies of NEW or RENEWED easements.
- d. Payments due under the Rate and Damage Schedule must be submitted to U.T. together with the original easement documents signed by the operator.
- e. Basements, Basement Renewals, and Surface Leases are typically granted for a period of ten (10) years and fee and damage rates on the Easement Schedule are based on a 10-year term. If the term of the Easement or Basement Renewal is for a period other than ten years, the minimum and rate may be adjusted accordingly.
- f. For new easements, the operator must submit to U.T. one (1) copy of the Tenant's Notification at the time the operator delivers the signed easement.
- g. U.T. may require the operator to maintain any road used by the lessee or operator to standards approved by U.T.
- h. Basements **are** not required for pipe or power lines on lands covered by an Oil and Gas Lease held by the company installing the pipe or power lines.
- i. Prior to surveying any right-of-way, the operator must notify the grazing lessee(s) and the appropriate University Lands field representative.
- j. After completion of pipeline installation, the operator must level and terrace pipeline **right-of-**ways to intercept and divert runoff and, at the request of U.T., seed right-of-ways with approved grasses. The operator must use USDA Soil Conservation Service standards and specifications for leveling, terracing, and seeding with appropriate grasses.

4. GENERAL GUIDELINES

- a. The operator or lessee shall not cut a fence or install a cattle guard without the prior consent of the Manager of University Lands-Surface Interests or his representative. The operator will be responsible for maintenance of cattle guards used for its operations.
- b. The operator must brace fences before cutting for crossing, and must ensure that openings remain closed or properly guarded at all times. Braces **must** conform to USDA Soil Conservation Service Standards & Specifications for fence construction. Copies of these specifications can be obtained from U.T. West Texas Operations Office.
- c. Prior to commencing any operations in connection with a water well, the operator must enter into an appropriate contract with U.T., in form acceptable to U.T.
- d. With regard to water wells, upon request by U.T., the operator will plug a water well used to provide water for drilling purposes. Such plugging shall be accomplished in accordance with all applicable laws, regulations, and ordinances, and specifications, including those promulgated by the Texas Natural Resource Conservation Commission. The operator will securely cap any water well left for future use.
- e. The rates set out in the Rate and Damage Schedule for Material Source Permits are issued on a project basis. The duration of the permit is limited to ten (10) days unless otherwise specified by the **permit**.
- f. An operator who obtains a material source permit must, at the request of U.T., level the pit in a manner acceptable to U.T.
- g. The rates set out in the Rate and Damage Schedule for Geophysical Operations are for **90-day** permits. For any permit of a longer duration, the rates may be adjusted accordingly.
- h. The rate, set out in the Rate and Damage Schedule are for routine operations on University Lands. The University of Texas System reserves the right to determine rates and damages on a **case-**by-case basis for all nonroutine or unusual activities on University Lands.

4. U. T. System: Additional Appropriation from the Available University Fund to U. T. Austin.--Upon recommendation of the Business Affairs and Audit Committee, the Board appropriated an additional \$1,467,500 in Available University Funds (AUF) to The University of Texas at Austin for Fiscal Year 1996 with the understanding that a portion of that amount will be used for library improvements.

Beginning in Fiscal Year 1996, the annual AUF allocation for U. T. Austin was reduced from \$75,000,000 to \$73,282,500 in order to increase the allocation of Permanent University Fund (PUF) Bond Proceeds to other U. T. System component institutions by \$1,717,500. Since only \$250,000 of that amount will be needed in Fiscal Year 1996 to service bond debt, the remaining \$1,467,500 can now be returned to U. T. Austin.

A U. T. Austin request for funds for library improvements in Fiscal Year 1996 as a part of the Library, Equipment, Repair and Rehabilitation (LERR) program was not funded in anticipation of this one-time return of funds.

5. U. T. System: Authorization to Renew the Comprehensive Crime Policy with National Union Fire Insurance Company, Pittsburgh, Pennsylvania, Effective November 1, 1995 Through November 1, 1996.--Authorization was given to renew The University of Texas System Comprehensive Crime Policy with National Union Fire Insurance Company, Pittsburgh, Pennsylvania, effective November 1, 1995 through November 1, 1996, at an annual premium of \$117,438.

This insurance policy covers all employees of the U. T. System, and premiums are prorated to each component institution based on full-time equivalents.

6. U. T. System: Adoption of a System-wide Comprehensive Property Protection Plan and Authorization to Acquire Catastrophic Property Insurance with Arkwright Mutual Insurance Company, Waltham, Massachusetts, Effective November 9, 1995.--The Board, upon recommendation of the Business Affairs and Audit Committee, adopted a Comprehensive Property Protection Plan for The University of Texas System and authorized the plan to be insured with catastrophic coverage acquired from Arkwright Mutual Insurance Company, Waltham, Massachusetts, effective November 9, 1995.

Since 1971, the policy of the U. T. System has been to acquire commercial property insurance only for buildings with revenue-producing activities or those buildings the revenues of which are pledged for the retirement of bond indebtedness.

Recognizing that loss emanates from a wide range of sources, it is not possible or necessarily desirable to control all losses by buying insurance or self-insuring. Rather, a variety of innovative preventive measures should be combined with the judicious use of an insurance program.

Development of a Comprehensive Property Protection Plan allows the U. T. System to design a program that is broader in coverage than the insurance industry is willing to provide. By combining various risk-financing alternatives, the U. T. System is able to achieve the most flexible, stable, and cost-effective program in the marketplace.

The Comprehensive Property Protection Plan offers:

- a. A \$100,000 to \$250,000 per loss component deductible, except for a special wind/flood deductible for The University of Texas Medical Branch at Galveston resulting from a named tropical depression
- b. \$5 million per occurrence/aggregate loss reserve fund
- c. Catastrophic insurance coverage for all losses exceeding \$5 million to a maximum of \$1 billion per occurrence.

The loss reserve fund is to be established by an initial allotment of \$5 million by the U. T. Board of Regents from the Available University Fund or other unallocated reserves held by U. T. System Administration. In addition, the U. T. System component institutions will contribute \$850,000 annually to the fund on a pro rata and risk-class basis. This fund will be actuarially reviewed biannually. Premiums for the catastrophic insurance will be paid out of the loss reserve fund.

7. U. T. System: Approval of Amendments to the Policy for Filing Financial Disclosure Statements Required by Chapter 572, Texas Government Code.--Upon recommendation of the Business Affairs and Audit Committee, the policy adopted at the August 1985 meeting of the U. T. Board of Regents and subsequently amended at the December 1985 and June 1990 meetings for implementing the filing of financial disclosure statements by certain officers within The University of Texas System required by Chapter 572 of the Texas Government Code was amended to read as follows:

- a. REQUIREMENT FOR FILING. On or before April 30, the Chancellor of the U. T. System and the chief administrative officer of each component institution shall file financial disclosure statements (Statement[s]) with the Texas Ethics Commission pursuant to Chapter 572, Texas Government Code. At the time of filing, each chief administrative officer shall furnish a copy of such Statement to the applicable Executive Vice Chancellor for review.
- b. The Statements shall be retained for an appropriate period as a part of the records of the office of the appropriate Executive Vice Chancellor, open to public inspection.
- c. The Statement form promulgated by the Texas Ethics Commission shall be utilized.

- d. SPECIAL REQUIREMENTS FOR NEW APPOINTEES. Within 45 days after assumption of duties, persons newly appointed to positions requiring the filing of Statements shall file a Statement with the Texas Ethics Commission and furnish a copy of such Statement to the appropriate Executive Vice Chancellor for review. Persons who file under this subsection and who notify the Texas Ethics Commission in writing of such filing are not required to file again under the provisions of subsection (a) above within the same calendar year.

Under the existing policy, the financial disclosure statements of certain officers within U. T. System are approved by the U. T. Board of Regents through the Executive Committee Letter process and made available for public inspection through the Office of the Board of Regents. Consistent with current law which does not require Regental review or approval of these financial disclosure statements, the amendments transfer review and record keeping responsibility from the U. T. Board of Regents to the appropriate Executive Vice Chancellor and eliminate the Executive Committee Letter process.

8. U. T. System: Approval of the System-wide Internal Audit Plan for Fiscal Year 1995-96.--The Texas Internal Auditing Act passed by the 71st Legislature requires in Section 4(1) that an annual audit plan, which identifies the individual audits to be conducted during the year, be prepared using risk assessment techniques. The Act further specifies in Section 6(2) that the internal auditor shall develop an annual audit plan which shall be approved by the governing board of the agency or its designee or by the administrator of an agency without a governing board.

In compliance therewith and upon recommendation of the Business Affairs and Audit Committee, the Board approved the System-wide Internal Audit Plan for Fiscal Year 1995-96 for The University of Texas System. A copy of the Plan is on file in the Office of the Board of Regents.

The development of the Audit Plan is based on a System-wide risk assessment, and implementation of the Plan will be coordinated with the institutional auditors to ensure coverage without duplication of effort.

9. U. T. System: Approval to Rescind the Environmental Review Policy for Acquisitions of Real Estate and to Adopt a Replacement Policy.--In order to incorporate environmental review standards promulgated by the American Society for Testing and Materials (ASTM) and to clarify the level of the environmental site assessment screening required for the acquisition of various property types, the Board rescinded The University of Texas System Environmental Review Policy for Acquisitions of Real Estate approved by the U. T. Board of Regents in August 1991 and adopted a new policy as set out on Pages 143 - 146.

**U. T. SYSTEM ENVIRONMENTAL REVIEW POLICY
FOR ACQUISITIONS OF REAL ESTATE**

Statement of Policy

It is the policy of The University of Texas System to minimize its potential for exposure to claims 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 estate assets 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. Federal and State statutes impose certain liabilities on owners of real property, including public institutions of higher education, when hazardous substances have been deposited, stored or released on the property. The term "hazardous substances" is not limited to the most dangerous or toxic substances but 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 include costs associated with removal of hazardous substances from the property, including overhead and enforcement expenses. If hazards are identified, the U. T. System may then weigh the risks 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 is later discovered which was unknown at the time of acquisition.

The Environmental Review Process

1. At a minimum, 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 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 the chief business officer of the component acquiring the land or his/her delegate.
 - a. No real property should be acquired and added to the inventory of campus real estate of any component of the U. T. System until an ESA has been performed by a qualified university employee or a consultant retained to conduct the assessment.
 - b. All costs of the ESA shall be paid by the component 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.
 - a. The Real Estate Office shall be notified immediately upon identification of a real estate asset which may be donated or bequeathed to any office or component of the U. T. System.
 - b. No commitment to accept a donation or bequest of real property should be made until an ESA has been performed under the direction of the Real Estate Office.
 - c. 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.
4. All ESAs should be performed in compliance with the standards established by ASTM.
5. Investigation of other environmental issues or conditions beyond the scope of the ASTM guidelines, such as biological or radiation contamination, may be required and will be determined and performed on a property-by-property basis.
6. If the initial transaction screen indicates areas of concern, the property may (i) be rejected, (ii) be accepted with the identified risks, or (iii) 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).
7. If a Phase I 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 do the review.
 - a. All contracts for Phase I ESAs shall be in a form acceptable to the Office of General Counsel.
 - b. The Office of General Counsel and the 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 property (i) may be rejected, (ii) may be accepted by the benefitted component, or (iii) may be subject to additional investigation in the form of a Phase II or III ESA at the request of the benefitted component.
8. If a Phase II ESA is requested, it must be conducted by an outside consultant 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 shall be prepared or reviewed by the Office of General Counsel.

- b. The Office of General Counsel and 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, (i) the property may be rejected or (ii) additional investigation may be undertaken by a Phase III ESA at the request of the benefitted component.
9. If a Phase III ESA is requested, it must be conducted by an outside expert and 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 shall be prepared or reviewed by the Office of General Counsel.
 - b. The Office of General Counsel and either the Real Estate Office (trust land) or the appropriate component business office (campus land) shall review the Phase III ESA report. If the Phase III ESA identifies unacceptable contamination or cleanup estimates, the site will be rejected.
10. Complete ASTM guidelines for the ESA transaction screen process, as revised from time to time, will be maintained by the Real Estate Office and distributed at cost to all component business and development offices upon request. Copies of the ESA Phase I ASTM guidelines will be ordered at a component's request.
11. When the U. T. System conducts an ESA either in-house or using an outside consultant and elects, based on the results of the ESA, not to acquire the parcel under review, it is the System's policy to provide a copy of the ESA to the seller/current land owner.

Recommended Environmental Review by Property Type

The level of screening will vary according to property type, history and location. In general, the initial transaction screen ESA should be conducted as described in this section.

1. Residential:
 - a. Conduct a site visit using the ASTM transaction screen.
 - b. Conduct 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: Steps 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 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 (tenants) of the site.
4. Industrial Sites: Engage a qualified outside 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 owners or operators (tenants) of the site.

10. U. T. System: Authorization to Amend the Policy on Utilization of Historically Underutilized Business (HUB) Firms.--In compliance with H.B. 1 of the 74th Texas Legislature and rules adopted by the General Services Commission (GSC), the Board amended The University of Texas System Policy on Utilization of Historically Underutilized Business (HUB) Firms to read as set forth on Pages 148 - 151.

The Policy on Contracting with Minority and Female-Owned Small Business Firms was approved by the U. T. Board of Regents in August 1990 pursuant to action by the 71st Legislature. Actions by the 72nd and 73rd Legislatures and by the Office of the Governor, through Executive Order AWR 93-7, led to amendments approved by the Board in April 1994 that renamed the policy as the Policy on Utilization of Historically Underutilized Business (HUB) Firms, specified administrative responsibilities and required program elements, and established a new management emphasis consistent with the new legislation.

It is the intent of the 74th Legislature [Article IX, Section 111, H.B. 1 (General Appropriations Act)] that each state agency and institution of higher education make a good faith effort to increase purchases and contract awards to HUB firms based on the results of the statewide disparity study completed in 1995 and implement rules adopted by the GSC.

The new legislation assigns HUB program compliance audit responsibility to the State Auditor. Upon an audit finding of noncompliance, the Legislative Budget Board may revoke an agency's purchasing authority, and the Comptroller may transfer funds appropriated for purchases of goods and services to the GSC.

The new GSC rules do not include ethnic group or gender conscious strategies as initially proposed. HUB participation is characterized in terms of goals not "quotas" or "set-asides." These new goals, outlined below, supersede the overall 30 percent goal specified by the old rules.

<u>Purchasing Category</u>	<u>HUB Utilization Goals (percent)</u>	<u>Adjusted HUB Utilization Goals¹ (percent)</u>
Building Construction	26.1	25.1
Heavy Construction		
Other Than Building	11.9	6.7
Specialty Trade		
Construction	57.2	47.0
Professional Services	20.0	18.1
Other Services	33.0	33.0
Commodities	12.6	11.5

¹Adjusted pursuant to 1 TAC Section 111.13(c)(7).

The new rules seek to comply with the judicial standard of strict scrutiny through several provisions (1) for adjustment of goals for ethnic or gender group overutilization, (2) for review to justify program continuation, and (3) for HUB firm graduation. Further, the new rules specify good faith effort criteria for agencies and contractors and assign agency responsibility for the oversight of contractor compliance. Other principally administrative provisions of the rules are essentially unchanged.

POLICY ON UTILIZATION OF HISTORICALLY
UNDERUTILIZED BUSINESS (HUB) FIRMS

I. POLICY STATEMENT

A. Purpose

It is the policy of The University of Texas System to promote full and equal opportunity for all businesses to provide the goods and services needed to support mission, administrative, and logistical operations of U. T. System Administration and U. T. System component institutions. U. T. System Administration and component institutions commit to a good faith effort to increase purchases and contract awards with Historically Underutilized Business (HUB) firms consistent with the state's goals for HUB participation and overall social advancement and economic prosperity.

B. Scope

This policy applies to acquisition of commodities, professional and other services, and construction by U. T. System Administration and component institutions, including auxiliary enterprises, regardless of funding source (treasury or non-treasury funds).

C. Definitions

1. "Historically Underutilized Business" means a business enterprise, which is defined as a Form of Historically Underutilized Business in C.3 below, formed for the purpose of making a profit and which is owned by one or more persons who: (a) are members of certain Socially Disadvantaged Groups and who have suffered the effects of discriminatory practices or similar insidious circumstances over which they have no control, and (b) have a proportionate interest and demonstrate active participation in the control, operation, and management of the enterprise's affairs.
2. "Socially Disadvantaged Groups" mean and include:
 - (a) Black Americans - includes persons having origins in any of the Black racial groups of Africa;
 - (b) Hispanic Americans - includes persons of Mexican, Puerto Rican, Cuban, Central or South American, or other Spanish or Portuguese culture or origin, regardless of race;

- (c) American Women - includes all women of any ethnicity except American Women specified in (a), (b), (d), and (e) of this subparagraph;
 - (d) Asian Pacific Americans - includes persons whose origins are in Japan, China, Taiwan, Korea, Vietnam, Laos, Cambodia, the Philippines, Samoa, Guam, the U. S. Trust Territories of the Pacific, the Northern Marianas, and Subcontinent Asian Americans which includes persons whose origins are from India, Pakistan, Bangladesh, Sri Lanka, Bhutan or Nepal; and
 - (e) Native Americans - includes persons who are American Indians, Eskimos, Aleuts, or Native Hawaiians.
3. "Forms of Historically Underutilized Business Enterprises" mean and include:
- (a) A corporation in which at least 51% of all classes of the shares of stock or other equitable securities are owned by one or more persons described in C.2 above;
 - (b) A sole proprietorship that is 100% owned by a person described in C.2 above;
 - (c) A partnership in which at least 51% of the assets and interests in the partnership is owned by one or more persons described in C.2 above;
 - (d) A joint venture in which each entity in the joint venture is an historically underutilized business;
 - (e) A supplier contract between an historically underutilized business and a prime contractor under which the historically underutilized business is directly involved in the manufacture or distribution of the supplies or materials or otherwise warehouses and ships the supplies; and
 - (f) A business, other than described in subparagraphs (a) through (e) above, which is a legally recognized business organization under the laws of the State of Texas, provided that at least 51% of the assets and interest and 51% of any classes of stock and equitable securities are owned by one or more persons described in C.2 above.

4. "Commodities" mean materials, supplies, or equipment.
5. "Professional Services" mean services procured under provisions of the Professional Services Procurement Act (Subchapter A, Chapter 2254, Texas Government Code).
6. "Other Services" mean all services, other than construction and professional services, including consulting services procured under provisions of Subchapter B, Chapter 2254, Texas Government Code.
7. "Construction" means construction, improvement, maintenance, or repair of buildings, roads, highways, or grounds.
8. "Treasury Funds" are funds maintained in the state treasury and paid through the State Comptroller's Office for U. T. System Administration or a component institution.
9. "Non-Treasury Funds" are all funds paid by U. T. System Administration or a component institution that are not deposited in the state treasury.

II. U. T. SYSTEM ADMINISTRATION AND COMPONENT INSTITUTION RESPONSIBILITIES

A. U. T. System Administration

1. The Chancellor, with support from and delegation to the Executive Vice Chancellor for Academic Affairs and the Executive Vice Chancellor for Health Affairs, exercises oversight responsibility for implementation of policies outlined herein by the U. T. System as a whole, and is responsible for policy implementation in U. T. System Administration.
2. The Executive Vice Chancellor for Business Affairs provides functional staff expertise and support, and advises the Chancellor, the Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs regarding all phases of the HUB program.

B. U. T. System Component Administration

The Chief Administrative Officer (CAO) of each component institution is responsible for implementation of policies and procedures promulgated herein at his/her institution. CAOs shall develop strategic and action plans necessary for effective implementation of the HUB program.

III. PROCEDURES

- A. Specify an operating division structure (line and block diagram with necessary explanatory narrative/notes) for the purpose of defining responsibility and accountability for achieving HUB program goals and objectives. Include that structure in strategic and action plans required by Section II.B above.
- B. Establish a staff coordinating group (SCG), chaired by the Chief Business Officer, to provide functional staff expertise, advice, and counsel regarding implementation of all aspects of the HUB program. Organization of the SCG shall include the directors, or comparable supervisors, of budget, accounting, purchasing, information services, and physical plant functions, and HUB coordinators. Other staff representation may be added at the discretion of the Chief Administrative Officer.
- C. Establish an outreach program designed to contact and maintain continuous liaison with the local/regional HUB business community. Two major objectives of this program are (1) to become knowledgeable of HUB firms capable of supplying needed materials, supplies, equipment, and services, and (2) to inform the HUB business community of business opportunities with component institutions and of requisite business processes and procedures.
- D. Establish internal programs designed to educate and provide functional staff expertise to operating division heads, who exercise budget expenditure authority. All staff engaged in daily procurement operations must be knowledgeable of and vigorously implement HUB program goals, objectives, strategies, and action plans.
- E. Develop and maintain a HUB utilization reporting system. Compile monthly data by operating division; compile data sufficient to satisfy reporting requirements of the General Services Commission (GSC) and to produce output and outcome measures specified in institutional strategic plans, including output/outcome measures by ethnic/gender divisions of HUB firms. Reports submitted to the GSC and to U. T. System Administration (subparagraph H below) shall be certified by the Chief Administrative Officer or the Chief Business Officer.
- F. Utilize and supplement, as appropriate, purchasing rules and regulations published by the GSC in support of HUB objectives.
- G. Establish a system to monitor individual buyer performance as it relates to institutional HUB program goals and objectives.
- H. Report progress toward HUB program objectives as requested by U. T. System Administration.

11. U. T. System: Progress Report on the Historically Underutilized Business (HUB) Program for Fiscal Year 1995.-- Committee Chairman Smiley called on Mr. Lewis Wright, Associate Vice Chancellor for Business Affairs, to present a progress report on The University of Texas System Historically Underutilized Business (HUB) Program for Fiscal Year 1995.

With the aid of viewgraphs, Mr. Wright presented a comprehensive report on the U. T. System Historically Underutilized Business program highlighting the experience in Fiscal Year 1995. He distributed to the members of the Board a report entitled "[The University of Texas System Historically Underutilized Business \(HUB\) Program Review dated November 9, 1995,](#)" a copy of which is on file in the Office of the Board of Regents.

At the conclusion of Mr. Wright's remarks, Committee Chairman Smiley expressed appreciation to Chancellor Cunningham, Mr. Wright, and the chief administrative officers for their focus and effectiveness in making this project a priority.

REPORT AND RECOMMENDATIONS OF THE ACADEMIC AFFAIRS COMMITTEE (Pages 153 - 160).--Committee Chairman Lebermann reported that the Academic Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the actions set forth in the Minute Orders which follow were recommended by the Academic Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter VI, Section 5, Subsection 5.12 (Participation in Student Government).--Upon recommendation of the Academic Affairs and Health Affairs Committees, the Board amended the Regents' Rules and Regulations, Part One, Chapter VI, Section 5, Subsection 5.12, regarding the mode of amending constitutions and bylaws, as set forth below:

Sec. 5. Participation in Student Government.

- 5.12 Mode of Amending Constitutions and Bylaws.--An amendment to the constitution or bylaws of a students' association may be adopted by an association, in accordance with its constitution and bylaws, but the change shall not become effective until transmitted to and acted upon by the chief student affairs officer, the chief administrative officer and the appropriate Executive Vice Chancellor. Such amendment shall be included in the institutional docket for ratification by the Board. Amendments to internal rules of procedure shall not become effective until transmitted to and acted upon by the chief student affairs officer and the chief administrative officer.

This amendment brings the Regents' Rules and Regulations into conformity with the recent Regentally approved procedural change which assigned matters related to student association constitutions to Regental approval via the institutional docket following approval by the Executive Vice Chancellor for Academic Affairs or Health Affairs as appropriate.

2. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Approval to Amend Chapter VII, Section 5 (Trust Foundations).--The language of the Regents' Rules and Regulations, Part One, Chapter VII, Section 5 concerning trust foundations is outdated with regard to current Internal Revenue Service terminology and with reference to current processing by The University of Texas System of the three charitable trusts identified therein (Hogg Foundation for Mental Health, Winedale Stagecoach Inn Fund, and Robertson Poth Foundation).

In accordance therewith and upon recommendation of the Academic Affairs and Health Affairs Committees, Section 5 (Trust Foundations) of Chapter VII, Part One of the Regents' Rules and Regulations was deleted in its entirety and the remaining sections of Chapter VII were renumbered as appropriate.

Among the three trusts referenced in this section, the Hogg Foundation for Mental Health has been dissolved and a recommendation for dissolution of the Robertson Poth Foundation will be presented to the Board for formal action in the future. Provisions of the Winedale Stagecoach Inn Fund are being reviewed to determine the optimum permissible operating structure for the Fund.

3. U. T. Board of Regents - Regents' Rules and Regulations, Part One: Amendments to Chapter VIII, Section 4, Subsections 4.8 and 4.(10) (Institutions and Entities Composing the System).--To reflect changes in the names or titles of academic entities within The University of Texas System general academic institutions that are primarily the result of academic program or administrative structure changes approved by the U. T. Board of Regents and the Texas Higher Education Coordinating Board during the past year, the Board amended the Regents' Rules and Regulations, Part One, Chapter VIII, Section 4, Subsections 4.8 and 4.(10) as set forth below:

Sec. 4. Institutions and Entities Composing the System.--The System is composed of the component institutions and entities set forth below in paragraphs 4.1 et seq. and such other component institutions and activities as may from time to time be assigned to the governance, control, jurisdiction, or management of the Board of the System. To insure uniformity and consistence of usage throughout the System, the component institutions and their respective entities shall be listed in the following order and the following titles shall be used:

	<u>Full Title</u>	<u>Short Title</u>
4.8	The University of Texas - Pan American	U.T. Pan American
4.81	The University of Texas - Pan American College of Liberal and Performing Arts	
4.82	The University of Texas - Pan American College of Business Administration	
4.83	The University of Texas - Pan American College of Education	
4.84	The University of Texas - Pan American College of Health Sciences and Human Services	
4.85	The University of Texas - Pan American College of Science and Engineering	
4.86	The University of Texas - Pan American College of Social and Behavioral Sciences	

	<u>Full Title</u>	<u>Short Title</u>
4.(10)	The University of Texas at San Antonio	U.T. San Antonio
4.(10)6	The University of Texas at San Antonio Downtown Campus	U.T. San Antonio Downtown Campus

4. U. T. Board of Regents - Regents' Rules and Regulations, Part Two: Approval of Amendments to Chapter I, Section 9, Subsection 9.3 (Official Seal, Colors, Flag, Logo, and Mascot).--Upon recommendation of the Academic Affairs and Health Affairs Committees, approval was given to amend the Regents' Rules and Regulations, Part Two, Chapter I, Section 9, Subsection 9.3, regarding the official flag, to read as set forth below:

Sec. 9. Official Seal, Colors, Flag, Logo, and Mascot.

- 9.3 The Texas State Flag shall be designated as the official flag of the System, and the official flag of each component institution shall be the Texas State Flag with a streamer with the official name of the component institution in white letters on an orange field, and a special occasion banner, as determined to be appropriate by the chief administrative officer in consultation with the appropriate Executive Vice Chancellor. No component institution shall have or display any other flag as its official flag. Nothing in this Subsection shall be interpreted to prohibit display of other flags in a manner consistent with the Texas Flag Code, Article 6139c, Vernon's Texas Civil Statutes.

These amendments explicitly authorize an institution to display a special occasion banner in conjunction with a special campus celebration such as a centennial year and clarify that, pursuant to the Texas Flag Code, institutions may not be prohibited from flying national, state, municipal, or foreign flags as long as such display is consistent with the Code.

5. U. T. System: Adoption of a Policy on Fees for Continuing Education Courses.--The 74th Texas Legislature adopted House Bill 815 which added Section 54.545 to the Texas Education Code requiring the governing board of an institution of higher education to charge a reasonable fee to persons registered in continuing education courses at the institution. Continuing education is defined to include an "extension course, correspondence course, or other self-supporting course" for which the institution does not collect tuition or receive formula funding. The statute also provides that the fee shall be in sufficient amount to permit the institution to recover costs of providing the course.

In compliance therewith, the Board adopted the Policy on Fees for Continuing Education Courses for The University of Texas System as set out on Page 156.

POLICY ON FEES FOR CONTINUING EDUCATION COURSES

Component institutions of The University of Texas System are authorized by the U. T. Board of Regents in accordance with Section 54.545 of the Texas Education Code to charge a reasonable fee to each person registered in an extension, correspondence or other self-supporting course at the institution and to set the fee in an amount sufficient to recover the costs for providing the course. Such courses may not include any course for which the institution collects tuition or receives formula funding.

The U. T. Board of Regents delegates to the chief administrative officer of the respective component institutions the authority and responsibility for approving the amount of the fee to be charged for each course. Continuing education course fees are subject to periodic audit for compliance with statutory requirements and/or to requests for reports from the U. T. Board of Regents, the Chancellor, or the respective Executive Vice Chancellors.

Each component institution shall adopt provisions in the institutional Handbook of Operating Procedures to reflect this policy and to incorporate institutional procedures for the approval process.

6. U. T. Arlington, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, and U. T. Tyler: Authorization to Waive Tuition for Senior Citizens Effective with the Spring Semester 1996 (Catalog Change).--Upon recommendation of the Academic Affairs Committee, the Board authorized The University of Texas at Arlington, The University of Texas at Dallas, The University of Texas at El Paso, The University of Texas - Pan American, The University of Texas of the Permian Basin, and The University of Texas at Tyler to allow senior citizens to enroll for credit in up to six hours of courses each semester or summer session without payment of tuition effective with the Spring Semester 1996 on a space available basis.

The 74th Texas Legislature passed House Bill 29 which added a Subsection (c) to Section 54.210 of the Texas Education Code. The section states that "The governing board of an institution of higher education may allow a senior citizen to enroll for credit in up to six hours of courses offered by the institution each semester or summer term without payment of tuition if space is available." The Texas Higher Education Coordinating Board subsequently defined "senior citizen" as persons age 65 or older and provided reporting instructions for this tuition exemption.

It was ordered that the next appropriate catalogs published at U. T. Arlington, U. T. Dallas, U. T. El Paso, U. T. Pan American, U. T. Permian Basin, and U. T. Tyler be amended to reflect this action.

7. U. T. Dallas, U. T. Permian Basin, and U. T. Tyler: Authorization to Charge Reduced Tuition Rates for Students Residing in States within 100 Miles of the Respective Institutions Effective with the Spring Semester 1996 and Approval for the Executive Vice Chancellor for Academic Affairs to Forward the Proposal to the Coordinating Board (Catalog Change).--The Board, upon recommendation of the Academic Affairs Committee, authorized The University of Texas at Dallas, The University of Texas of the Permian Basin, and The University of Texas at Tyler, respectively, to charge, effective with the Spring Semester 1996, a reduced tuition rate equal to the statutory rate for Texas residents, plus \$30 per semester credit hour, for citizens of states within 100 miles of each institution under the provisions of Section 54.0601 of the Texas Education Code as indicated below:

<u>Institution</u>	<u>State(s) within 100 Miles</u>
U. T. Dallas	Oklahoma
U. T. Permian Basin	New Mexico
U. T. Tyler	Arkansas, Louisiana, Oklahoma

In keeping with guidelines adopted by the Texas Higher Education Coordinating Board, the lower tuition rates are in the best interest of the respective institutions and charging a lower tuition rate will not cause unreasonable harm to any other institution of higher education.

Further, the Executive Vice Chancellor for Academic Affairs was authorized to forward the proposal for reduced tuition rates to the Texas Higher Education Coordinating Board for consideration and approval.

The 74th Texas Legislature passed House Bill 1792 which included the addition of Section 54.0601 to the Texas Education Code. The section states that "the Coordinating Board may set a nonresident tuition rate that is lower than the [regular] nonresident tuition rate . . ." based on a written request from the governing board of a general academic teaching institution located not more than 100 miles from the boundary of Texas with another state.

Upon Coordinating Board approval, the next appropriate catalog published at the respective institutions will be amended to reflect this action.

8. U. T. El Paso: Request for Authorization to Establish a Doctor of Philosophy Degree in Biological Sciences and to Submit the Proposed Program to the Coordinating Board for Approval (Catalog Change) (Withdrawn).--The item related to the proposed establishment of a Doctor of Philosophy degree in Biological Sciences at The University of Texas at El Paso was withdrawn at the request of the institution and will be revised for consideration at a future date.

9. U. T. Pan American: Establishment of a Master of Education Degree with a Major in Special Education and Authorization to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--Approval was given to establish a Master of Education degree with a major in Special Education at The University of Texas - Pan American and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The degree program is consistent with U. T. Pan American's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

The Master of Education degree with a major in Special Education at U. T. Pan American will address the educational needs of teachers of individuals with disabilities as well as culturally and linguistically diverse exceptional learners.

The program is a 45 semester credit hour degree to be administered by the Department of Educational Psychology. Anticipated date for enrolling the first students is Fall Semester 1996. Enrollment of the first cohort is expected to be 12 students, increasing during the first five years to an average of approximately 30 students in the program each year.

The program will be funded primarily from special legislative appropriations (South Texas/Border Initiative) and the Higher Education Assistance Fund (for library resources and equipment) for the first three years. Costs of the program will include nonprint (videos) library resource materials, supplies and materials for teaching kits, and, in future years, laptop computers and related equipment.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. Pan American will be amended to reflect this action.

10. U. T. San Antonio: Approval to Divide the Division of Art and Architecture into (a) the Division of Visual Arts and (b) the Division of Architecture and Interior Design and to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--Upon recommendation of the Academic Affairs Committee, the Board granted approval to The University of Texas at San Antonio to divide the Division of Art and Architecture into two separate divisions to be named the Division of Visual Arts and the Division of Architecture and Interior Design and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. Each division will remain within the College of Fine Arts and Humanities.

The separation of the current Division of Art and Architecture at U. T. San Antonio will allow for more effective quality control of curriculum and discipline-specific service to students, will improve administrative efficiency, and will establish the credibility of the new Master of Architecture degree program. Separating the administrative functions will allow greater control of student advising, operations budgets, personnel, and other related administrative functions.

This change will not require additional expenditures or costs since administrative compensation for a coordinator of the architecture program has previously been budgeted.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. San Antonio will be amended to conform to this action.

11. U. T. San Antonio: Authorization to Establish a Master of Arts Degree in Political Science and to Submit the Proposal to the Coordinating Board for Approval (Catalog Change).--The Academic Affairs Committee recommended and the Board authorized The University of Texas at San Antonio to establish a Master of Arts degree in Political Science and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The degree program is consistent with U. T. San Antonio's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

U. T. San Antonio's Master of Arts degree in Political Science, which is to be administered by the Political Science Graduate Studies Committee and the Division of Social and Policy Sciences within the College of Social and Behavioral Sciences, is a 36 semester credit hour program.

It is anticipated that implementation of the program will be Fall Semester 1996. Expected enrollment is 20 full-time equivalent students for the first year, increasing to about 60 by year five.

Regular U. T. San Antonio graduate admissions standards will apply. Unconditional admission standards for this program include a 3.0 grade point average, a baccalaureate degree from an accredited institution, Graduate Record Examination scores of 1000, and having 18 or more earned semester credit hours in political science subjects. Conditional acceptance may be considered. The 36 semester credit hour curriculum includes a 12 hour core and 12 to 15 hours of prescribed electives.

Four new faculty members will be added to the current total of ten over the course of the first five years. Funding is to be provided primarily by South Texas/Border Initiative funds in the first two years and supplemented by State appropriations and reallocation of existing funds for the next three years.

Upon Coordinating Board approval, the next appropriate catalog published at U. T. San Antonio will be amended to reflect this action.

12. U. T. San Antonio: Establishment of a Master of Science Degree in Sociology and Authorization to Submit the Program to the Coordinating Board for Approval (Catalog Change).--Authorization was given to establish a Master of Science degree in Sociology at The University of Texas at San Antonio and to submit the proposal to the Texas Higher Education Coordinating Board for review and appropriate action. The degree program, which will be implemented in Fall Semester 1996, is consistent with U. T. San Antonio's approved Table of Programs and institutional plans for offering quality degree programs to meet student needs.

Administered by the Sociology Graduate Studies Committee of the College of Social and Behavioral Sciences, U. T. San Antonio's Master of Science degree in Sociology is a 36 semester credit hour program. The program will have two options: a thesis option available after 24 semester credit hours for those planning to pursue doctoral studies or participation in an internship in local organizational settings for those seeking a terminal degree. All candidates will be required to pass both written and oral comprehensive examinations after completing 30 semester credit hours.

Four new faculty members will be added to the current total of eight, with one added in each of years one, two, four, and five of the program. The additional faculty will accommodate new course offerings in the program. Facilities and equipment will be adequate with the completion of the Business Building in 1996 and the related reallocation of space. Funding will be provided primarily by South Texas/Border Initiative funds in years one and two and supplemented by state appropriations and federal funding in years three through five.

Upon approval by the Coordinating Board, the next appropriate catalog published at U. T. San Antonio will be amended to reflect this action.

REPORT AND RECOMMENDATIONS OF THE HEALTH AFFAIRS COMMITTEE (Pages 161 - 164).--Committee Chairman Loeffler reported that the Health Affairs Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, the action set forth in the Minute Order which follows was recommended by the Health Affairs Committee and approved in open session and without objection by the U. T. Board of Regents:

U. T. Southwestern Medical Center - Dallas, U. T. Medical Branch - Galveston, U. T. Health Science Center - Houston, U. T. Health Science Center - San Antonio, U. T. M.D. Anderson Cancer Center, and U. T. Health Center - Tyler: Approval of Revisions to Appendices A and B of the Standard Format for Bylaws of the Medical Service, Research and Development Plan/Physician Referral Service (MSRDP/PRS) Effective January 1, 1996.--Upon recommendation of the Health Affairs Committee, Appendices A and B of the standard format for Bylaws of the Medical Service, Research and Development Plan/Physician Referral Service (MSRDP/PRS) for The University of Texas Southwestern Medical Center at Dallas, The University of Texas Medical Branch at Galveston, The University of Texas Health Science Center at Houston, The University of Texas Health Science Center at San Antonio, The University of Texas M.D. Anderson Cancer Center, and The University of Texas Health Center at Tyler were revised effective January 1, 1996, as set forth on Pages 162 - 164.

Recent IRS audits of several health components of The University of Texas System and changes in IRS regulations for employee fringe benefits necessitated a comprehensive review of Appendices A and B of the MSRDP/PRS Bylaws. The revised appendices, which have been developed to provide the guidelines for the expenditure of MSRDP/PRS income, respond to the findings in the IRS audits and are in compliance with IRS regulations.

APPENDIX A

MSRDP/PRS AUTHORIZED FRINGE BENEFITS

Effective January 1, 1996

<u>Authorized Benefit</u>	<u>Maximum</u>
1. Supplemental Retirement Payments	In accordance with U. T. System policy. Tax sheltered SRA's only through salary reduction agreements.
2. Parking Fees	At U. T. institution(s) and teaching hospital(s). Actual expense not to exceed IRS Section 132 limitation.
<ul style="list-style-type: none">• No MSRDP/PRS funds may be expended for the benefit of any single individual person or member except as herein approved unless specific exception has been approved by the Board of Regents.• Classified plan employees may receive only the basic state-approved benefits paid from MSRDP/PRS.• Benefits specifically <u>not</u> approved include:<ul style="list-style-type: none">- personal liability insurance- medical and dental insurance- life insurance- estate planning- tax service- accounting service.• Authorized fringe benefits may not exceed thirty (30) percent of total salary.• This list of authorized fringe benefits and yearly limits may be periodically amended by action of the Chancellor's Office.• Exceptions for Presidents and Directors may be made by the Board of Regents for such expenditures as car allowances, long-term disability, educational allowances, housing allowances, etc.	

APPENDIX B

MSRDP/PRS AUTHORIZED PROFESSIONAL
BUSINESS EXPENDITURES

Effective January 1, 1996

INSTITUTIONAL TRUST FUNDS AND CLINICAL DEPARTMENT FUNDS

	<u>Authorized Business Expense</u>	<u>Maximum</u>
1.	Malpractice Insurance	U. T. Self-insurance rates
2.	Official travel, including registration fees (see No. 17, Official Institutional Functions and Official Entertainment)	In accordance with policy and limits, established by U. T. System and institution not to exceed actual expense
3.	Faculty Development Leave	In accordance with the Regents' <u>Rules and Regulations</u> and institutional policy
4.	Uniforms or Lab Coats	Through institutional purchasing
5.	Membership Dues in Professional Scientific Organizations, Faculty Clubs, Medical Center clubs, or equivalent	In accordance with institutional policy. Faculty Clubs, Medical Center clubs, or equivalent with President's approval.
6.	Texas State Clinical License Fee including Board of Medical Examiners License	Annual fee; reimbursement expenditure only
7.	Medically-Related Educational Aids	In accordance with institutional policy
8.	Salary, Salary Augmentation and/or Incentive Augmentation Plans	In accordance with U. T. System policy
9.	Purchase, maintenance and operation of equipment and maintenance and operation of U. T. System facilities	In accordance with institutional policy
10.	Ordinary and necessary business expenses incurred by the member in earning the professional fees charged by said member, excluding entertainment (see No. 17, Official Institutional Functions and Official Entertainment)	In accordance with institutional policy

<u>Authorized Business Expense</u>	<u>Maximum</u>
11. Registration fees and tuition incident to attendance at meetings and courses as requested or approved by institution	In accordance with institutional policy
12. Consultant fees and expenses including guest speakers at official institutionally sponsored or sanctioned meetings	In accordance with U. T. System and institutional policy
13. Expenses incident to faculty or staff recruitment (see No. 17, Official Institutional Functions and Official Entertainment)	In accordance with institutional policy
14. Establishment or endowment of programs, professorships, or chairs	In accordance with U. T. System policy
15. Support of academic programs and projects involving education, research or patient care	In accordance with institutional policy
16. Institutional participation in community, organizations or events	In accordance with institutional policy
17. Official Institutional Functions and Official Entertainment. Official entertainment is defined as business-related events or expenditures which are of documented benefit to the institution or The University of Texas System.	Prior presidential approval required for any expenditures greater than \$2,500. A quarterly report of all expenditures approved in this category shall be filed with the Executive Vice Chancellor for Health Affairs.
• No MSRDP/PRS funds may be expended for the benefit of any single individual person or member except as herein approved.	
• All requests for reimbursement must contain adequate documentation and must be signed by the person seeking reimbursement.	
• All expenditures are subject to the <u>Rules and Regulations</u> of the Board of Regents of The University of Texas System and applicable institutional regulations and procedures. This list of authorized expenditures may be periodically amended by action of the Chancellor's Office.	

REPORT AND RECOMMENDATIONS OF THE FACILITIES PLANNING AND CONSTRUCTION COMMITTEE (Pages 165 - 175).--Committee Chairman Temple reported that the Facilities Planning and Construction Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Facilities Planning and Construction Committee and approved in open session and without objection by the U. T. Board of Regents:

1. U. T. Austin - Renovation of Gregory Gymnasium (Project No. 102-817): Authorization to Increase Total Project Cost; Additional Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:
 - a. Authorized an increase in the total project cost for the Renovation of Gregory Gymnasium at The University of Texas at Austin from \$20,700,000 to \$23,600,000
 - b. Appropriated an additional \$2,900,000 with \$1,900,000 from Revenue Financing System Bond Proceeds and \$1,000,000 from General Fee Balances which, when combined with previous appropriations of \$18,700,000 in Revenue Financing System Bond Proceeds and \$2,000,000 in General Fee Balances, will provide \$23,600,000 in total project funding.

Following a presentation by Ms. Pam Clayton, Director of Finance for The University of Texas System, related to the qualifications of this project for the U. T. System Revenue Financing System and in compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 166, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. U. T. 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 **\$1,900,000**

- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

At the May 1995 meeting, the U. T. Board of Regents approved preliminary plans for Renovation of Gregory Gymnasium at U. T. Austin **at** an estimated total project cost of **\$20,700,000** and authorized preparation of final plans, advertisement for bids, and award of all contracts by the Executive Committee within the authorized total project cost.

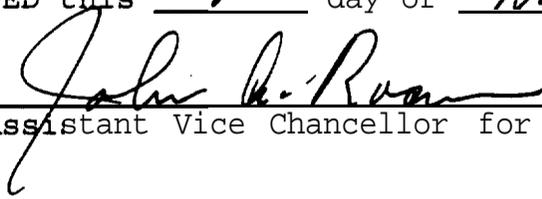
During completion of final plans, more comprehensive cost estimates indicated a total project cost of **\$23,600,000**. Consequently, the project cost is increased by **\$2,900,000** to assure that the critical program scope is not reduced. Additional funding for the cost increase is available with **\$1,900,000** from Revenue Financing System Bond Proceeds and **\$1,000,000** from General Fee Balances.

Approval of this increase in project cost amends the FY 1996-2001 Capital Improvement Program to provide for a total project cost of **\$23,600,000** funded by **\$20,600,000** from Revenue Financing System Bond Proceeds and **\$3,000,000** from General Fee 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 adopted by the Board on February 14, 1991, **and amended** on October 8, 1993 (the "Master Resolution"), do hereby execute this certificate for the benefit of the Board of Regents pursuant to Section **5(a)(ii)** of the Master Resolution in connection with the authorization by the Board to issue "**Parity** Debt" pursuant to the Master Resolution to finance the cost of the construction of Renovation of Gregory Gymnasium at U. T. Austin, and do certify that to the best of my knowledge the Board of Regents is in compliance with all covenants contained in the Master **Resolution, First** Supplemental Resolution Establishing an Interim Financing Program, and the Second Supplemental Resolution, and is not in default of any of the terms, provisions and conditions in said Master Resolution, First Supplemental Resolution and Second Supplemental Resolution as amended.

EXECUTED this 9th day of November, 1995


Assistant Vice Chancellor for Finance

2. U. T. Austin - McDonald Observatory - Additional Staff Housing: Authorization for Project; Preparation of Final Plans, Bidding, and Award of Contracts with Management by U. T. Austin Administration; Submission of Project to Coordinating Board; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Facilities Planning and Construction Committee recommended and the Board:
- a. Authorized a project for Additional Staff Housing at The University of Texas at Austin McDonald Observatory at Mount Locke at an estimated total project cost of \$750,000
 - b. Authorized preparation of final plans, bidding, and award of all contracts within the authorized total project cost with management by U. T. Austin Administration and Physical Plant Department with their own forces or through contract services, in consultation with the Office of Facilities Planning and Construction
 - c. Authorized submission of the project to the Texas Higher Education Coordinating Board
 - d. Appropriated \$600,000 from Revenue Financing System Bond Proceeds and \$150,000 from Auxiliary Enterprise Balances for total project funding and amended the FY 1996-2001 Capital Improvement Program and the FY 1996 Capital Budget to include this project with funding as indicated above.

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 168, the Board resolved that:

- a. Parity Debt shall be issued to pay the project's cost including any project costs paid prior to the issuance of such Parity Debt
- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. U. T. 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 \$600,000

- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

In conjunction with the operation of The William P. Hobby - Robert E. Eberly (Spectroscopic Survey) Telescope at the U. T. Austin McDonald Observatory, it is necessary to construct five additional single-family houses. There are currently twenty-two staff houses at the West Texas site, plus visitor quarters. To accommodate the ten research personnel that will be required for the Hobby - Eberly Telescope, five existing houses will be used and five new houses are needed. It is anticipated that the quality of construction will be similar to the existing **premanufactured** houses.

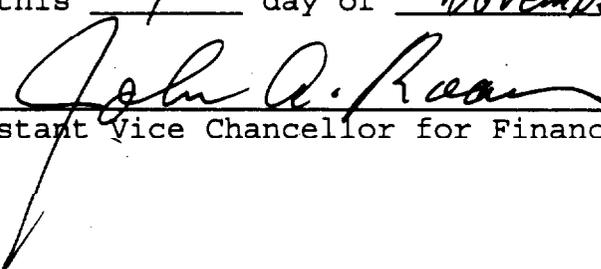
The estimated total project cost, including roads and utility infrastructure, is \$750,000 to be funded with \$600,000 from Revenue Financing System Bond Proceeds and \$150,000 from Auxiliary Enterprise Balances.

Approval of this item amends the FY 1996-2001 Capital Improvement Program and the FY 1996 Capital Budget to include this project with funding as indicated above.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 9th day of November, 1995


Assistant Vice Chancellor for Finance

3. U. T. Austin - Music Building: Approval to Name the Building Rainey Hall [Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1 (Naming of Buildings)].--In accordance with the Regents' Rules and Regulations, Part One, Chapter VIII, Section 1, Subsection 1.1, regarding the naming of buildings, the Board approved the naming of the Music Building at The University of Texas at Austin as Rainey Hall in honor of the late Dr. Homer Price Rainey, former President of U. T. Austin.

Prior to becoming President of U. T. Austin in 1939, Dr. Rainey distinguished himself in several academic and administrative positions in higher education. In 1944, the U. T. Board of Regents dismissed Dr. Rainey from the U. T. Austin presidency due to his staunch defense of academic freedom. Dr. Rainey remained active nationally in church, civic, and educational affairs until his death in 1985.

The U. T. Austin 50th Year Reunion Class of 1945 recommended that the Music Building, located on the South Mall of the campus, be named in honor of Dr. Rainey, who himself was a musician and who took great interest in the construction of the Music Building during his presidency. The Music Building, currently assigned to the College of Liberal Arts, is occupied primarily by the Department of French and Italian.

Chairman Rapoport noted that Dr. Rainey's commitment to academic freedom is one reason why U. T. Austin is as great as it is today and commended the Board for naming this building in his honor.

4. U. T. Austin - University Interscholastic League Building (Project No. 102-803): Approval of Preliminary Plans; Authorization to Prepare Final Plans and Specifications; Submission of the Project to the Coordinating Board; Advertisement for Bids; Executive Committee Award of Contracts; and Additional Appropriation Therefor.--Following brief remarks by President Berdahl regarding a new site for the University Interscholastic League Building (UIL) at The University of Texas at Austin, Mr. Juan Cotera, representing the Project Architect, Cotera, Kolar & Negrete Architects, Austin, Texas, presented the preliminary plans and specifications for this project to the Facilities Planning and Construction Committee.

Based on this presentation and upon recommendation of the Facilities Planning and Construction Committee, the Board:

- a. Approved preliminary plans and specifications for the University Interscholastic League Building at U. T. Austin at an estimated total project cost of \$4,450,000
- b. Authorized preparation of final plans and specifications
- c. Authorized submission of the project to the Texas Higher Education Coordinating Board
- d. Upon completion of final review, authorized the Office of Facilities Planning and Construction to advertise for bids

- e. Upon any required approval of the Coordinating Board, authorized the Executive Committee to award all contracts associated with this project within the authorized total project cost
- f. Appropriated \$1,225,000 from University Interscholastic League reserves for total project funding. Previous appropriations had been \$3,225,000 from the same source.

At the April 1994 meeting, the U. T. Board of Regents approved the preliminary plans and specifications for the UIL Building at U. T. Austin at an estimated total project cost of \$3,225,000. At the August 1995 meeting, the FY 1996-2001 Capital Improvement Program was adopted with the UIL Building project cost of \$4,450,000.

Funding for this project, which is to be located on U. T. Austin property east of IH 35 on Manor Road consistent with the recommendations of the Campus Master Plan, is from UIL reserves.

Committee Chairman Temple expressed appreciation to the project architect, the U. T. Austin Administration, and the Office of Facilities Planning and Construction for their special efforts on this project.

- 5. U. T. Dallas: Authorization for Additional Negotiation of Ground Lease with Southwestern Legal Foundation, a Nonprofit Corporation, Richardson, Texas, and Approval for the Executive Vice Chancellor for Business Affairs to Execute Lease.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:

- a. Authorized additional negotiation of a long-term Ground Lease with Southwestern Legal Foundation, a nonprofit corporation, Richardson, Texas (Foundation), by representatives of The University of Texas at Dallas and The University of Texas System Administration
- b. Assuming final agreement on a lease in substantially the form used for similar cooperative projects, authorized the Executive Vice Chancellor for Business Affairs, following review by the Offices of Academic Affairs and General Counsel, to execute said Lease and any ancillary documents required.

Key provisions of the proposed Ground Lease are as follows:

- a. The U. T. Board of Regents will lease a tract of approximately one acre out of the U. T. Dallas campus (Leased Premises) to the Foundation for a proposed term of 35 years and a renewal option for 15 years. (The term and first right of refusal to purchase the project are being negotiated.)

Note: Committee Chairman Temple indicated that the tract of land under active consideration is one acre and not one-half acre as cited in the Material Supporting the Agenda yellow sheet material.

- b. The Foundation will provide financing, construction, operation, and maintenance of a 25,000 square foot facility. The Foundation will provide the utility infrastructure for the facility in a manner to be approved by U. T. Dallas.
- c. The Foundation will indemnify the U. T. Board of Regents and U. T. System employees and agents from all liability, claims, and actions of every kind arising out of or connected with the use or occupancy of the leased premises. The Foundation will secure casualty, liability, and workers' compensation insurance covering the Leased Premises, in amounts to be negotiated and specified in the Lease.
- d. All improvements to the Leased Premises revert to the U. T. Board of Regents at the expiration of the proposed Lease at no cost to the U. T. Board of Regents.
- e. The U. T. Board of Regents will have the option to require the Foundation, at its sole cost, to demolish all improvements upon expiration or abandonment of the Lease unless the U. T. Board of Regents has taken possession of the facilities. The proposed Lease may be terminated upon the occurrence of uncured defaults by the Foundation subject to normal lender requirements.
- f. Proposed considerations to the U. T. Board of Regents include an annual base rent in an amount being negotiated, shared use of facilities by U. T. Dallas for its educational activities and operations as mutually agreeable, and use of the facilities as a learning laboratory for U. T. Dallas staff and students via a standard affiliation agreement.
- g. U. T. Dallas agrees to provide adequate parking at sites convenient to the Leased Premises. Should available parking become inadequate, the parties agree to take further action as appropriate to allow access to additional parking sites on campus, assign reserved parking spaces, or allow the Foundation to construct additional parking.

Negotiations for the lease of a portion of the U. T. Dallas campus north and west of Karl Hoblitzelle Hall by the Southwestern Legal Foundation for the construction and operation of a building to house Foundation operations have reached the point represented by the proposed Ground Lease agreement. The proposed agreement provides a generally acceptable framework for the project, but minor details remain to be negotiated.

The Foundation is engaged in continuing education activities of national and international scope. In February 1974, the U. T. Board of Regents authorized the Foundation to occupy space in the Environmental Sciences Building (now Hoblitzelle Hall) then being constructed on the U. T. Dallas campus because the Foundation's location on campus would assist U. T. Dallas to fulfill its public service mission and provide certain continuing education needs.

The 1974 agreement required two years' notice of intent to terminate the agreement. Notice was given by U. T. Dallas in February 1994, of the institution's intention to terminate the agreement no later than March 1, 1996, as the institution is in critical need of the space. In the notice, U. T. Dallas offered the possibility of a long-term lease of campus land for the Foundation to construct a new building for its use. Estimated cost to the Foundation for replacement building construction is \$4 million.

6. U. T. El Paso: Approval of Various Capital Renewal Projects; Appropriation Therefor; and Approval of Use of Revenue Financing System Parity Debt, Receipt of Certificate, and Finding of Fact with Regard to Financial Capacity.--The Board, upon recommendation of the Facilities Planning and Construction Committee, authorized Various Capital Renewal Projects at The University of Texas at El Paso as listed below in an amount not to exceed \$2,625,000, and appropriated this amount from Revenue Financing System Bond Proceeds:

- ADA Modifications - Various Buildings
- Central Energy Plant Pump
- New Classroom Building Equipment
- Academic Equipment
- Stucco Repair - Various Buildings
- Water Pumps
- Liberal Arts Repair & Renovation - Final Phase
- Roof Repairs - Various Buildings

In compliance with Section 5 of the Amended and Restated Master Resolution Establishing The University of Texas System Revenue Financing System, adopted by the U. T. Board of Regents on February 14, 1991, and amended on October 8, 1993, and upon delivery of the Certificate of an Authorized Representative as set out on Page 173, the Board resolved that:

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

- b. Sufficient funds will be available to meet the financial obligations of the U. T. System including sufficient Pledged Revenues as defined in the Master Resolution to satisfy the Annual Debt Service Requirements of the Financing System and to meet all financial obligations of the Board relating to the Financing System
- c. U. T. El Paso, 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 **\$2,625,000**
- d. This resolution satisfies the official intent requirements set forth in Section 1.150-2 of the U. S. Treasury Regulations.

The 74th Texas Legislature authorized an increase in the maximum general use fee in an amount not to exceed the level of in-state undergraduate tuition. This initiative was in response to the need to provide capital funding for Permanent University Fund (PUF) institutions at a level at least equivalent to HEAF institutions.

PARITY DEBT CERTIFICATE OF U. T. SYSTEM REPRESENTATIVE

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

EXECUTED this 9th day of November, 1995

John D. Roan
Assistant Vice Chancellor for Finance

7. U. T. San Antonio - Small Animal Building Expansion and Renovation (Project No. 401-728): Approval to Amend the FY 1996-2001 Capital Improvement Program to Include Project; Submission of the Project to the Coordinating Board; Authorization for Final Plans, Bidding, and Award of Contracts; and Appropriation Therefor.--Upon recommendation of the Facilities Planning and Construction Committee, the Board:
- a. Approved the amendment of the FY 1996-2001 Capital Improvement Program to include The University of Texas at San Antonio - Small Animal Building Expansion and Renovation at an estimated total project cost of \$625,000 to be funded with \$300,000 from Permanent University Fund Bond Proceeds prior year commitment, \$25,000 from Interest on Local Funds, \$150,000 from General Fee Balances, and \$150,000 from Gifts and Grants
 - b. Authorized submission of the project to the Texas Higher Education Coordinating Board as required
 - c. Authorized completion of final plans and specifications by the U. T. San Antonio Administration with its own forces or through contract services, as required, in consultation with the Office of Facilities Planning and Construction
 - d. Authorized bidding and award of all contracts by U. T. San Antonio Administration with the Executive Committee to award contracts in excess of institutional limits
 - e. Appropriated \$300,000 from Permanent University Fund Bond Proceeds prior year commitment from the FY 1995 Capital Budget, \$25,000 from Interest on Local Funds, \$150,000 from General Fee Balances, and \$150,000 from Gifts and Grants for total project funding.

In December 1989, the U. T. Board of Regents authorized the U. T. San Antonio - Small Animal Building Expansion at an estimated total project cost of \$400,000. The project was carried forward into the FY 1994-1999 Capital Improvement Program (CIP) as the Small Animal Building - Phase I, with funding from \$300,000 in Permanent University Fund (PUF) Bond Proceeds, \$75,000 in Gifts and Grants, and \$25,000 in Interest on Local Funds.

This project was inadvertently omitted from the FY 1996-2001 CIP update in August 1995. The National Science Foundation has recently awarded a matching grant of \$150,000 to U. T. San Antonio which may be used to renovate the existing Small Animal Building located on west campus property. This project has been redesignated as the Small Animal Building Expansion and Renovation at an estimated total project cost of \$625,000.

* * * * *

At the conclusion of the Facilities Planning and Construction Committee meeting, Committee Chairman Temple reported that at today's (November 9) meeting the Board had approved a recommendation from the Executive Committee to award five (5) general construction contracts which included a 21.2% participation by Historically Underutilized Businesses, 11.7% by women-owned firms and 9.5% by minority-owned firms.

REPORT AND RECOMMENDATIONS OF THE ASSET MANAGEMENT COMMITTEE (Pages 175 - 230).--Committee Chairman Hicks reported that the Asset Management Committee had met in open session to consider those matters on its agenda and to formulate recommendations for the U. T. Board of Regents. Unless otherwise indicated, all actions set forth in the Minute Orders which follow were recommended by the Asset Management Committee and approved in open session and without objection by the U. T. Board of Regents.

I. PERMANENT UNIVERSITY FUND

1. Summary Investment Report at August 31, 1995.--Committee Chairman Hicks reviewed the Report on Permanent University Fund Investments and Income at August 31, 1995, as prepared by the Office of Asset Management and as set forth below:

PERMANENT UNIVERSITY FUND¹
SUMMARY REPORT
(\$ millions)

	<u>FY93-94</u> <u>Full Year</u>	<u>FY94-95</u> <u>Full Year</u>
Beginning Market Value	4,468.7	4,428.0
PUF Lands Receipts ²	59.6	57.1
Investment Income	242.3	249.5
Investment Income Distributed	(242.3)	(249.5)
Realized Gains (Losses)	108.6	105.5
Change in Unrealized Gains (Losses)	<u>(208.9)</u>	<u>367.9</u>
Ending Market Value	4,428.0	4,958.5
 AUF Income		
Investment Income	242.3 ³	249.5
Surface Income	4.3	3.6
Other Income	<u>0.2</u>	<u>0.3</u>
Total	246.8	253.4

¹Excludes PUF Lands mineral and surface interests with estimated values of \$328.6 million and \$157.8 million, respectively.

²As of August 31, 1995: 765,889 acres under lease, 521,856 producing acres, 2,541 active leases and 2,063 producing leases.

³Amended to exclude fees previously reflected as offset to income.

2. Permanent University Fund: Report on Investments for the Fiscal Year Ended August 31, 1995.--Prior to the meeting, each member of the U. T. Board of Regents received a report on Permanent University Fund investments for the fiscal year ended August 31, 1995. The Board, upon recommendation of the Asset Management Committee, approved this report and directed its distribution to the Governor, members of the Legislature, and other State officials, as required by Section 66.05 of the Texas Education Code.

The Permanent University Fund book value of assets, market value, and earnings during the year are shown below:

	<u>Fiscal Year Ended 8/31</u>		<u>Increase (Decrease)</u>	
	<u>1994</u>	<u>1995</u>	<u>Amount</u>	<u>%</u>
Book Value	\$4,213,208,654	\$4,375,824,304	\$162,615,650	3.86%
Market Value	\$4,427,969,755	\$4,958,521,079	\$530,551,324	11.98%
Investment Income	\$ 242,304,280	\$ 249,534,119	\$ 7,229,839	2.98%

It was noted that the book and market value for the year ended August 31, 1994, has been restated to reflect trade date reporting for comparative purposes. The August 31, 1995 values are reported on a trade date basis.

II. LONG TERM FUND

Summary Investment Report at August 31, 1995.--Committee Chairman Hicks reviewed the Report on Long Term Fund Investments and Income at August 31, 1995, as prepared by the Office of Asset Management and as set forth below:

LONG TERM FUND
SUMMARY REPORT
(\$ millions)

	<u>FY93-94</u>	<u>FY94-95</u>
	Full Year	Full Year
Beginning Market Value	1,128.0	1,226.3
Contributions	111.8	202.3
Investment Return*	51.3	201.5
Expenses	(2.1)	(2.8)
Distributions	<u>(62.7)</u>	<u>(68.5)</u>
Ending Market Value	1,226.3	1,558.8
Net Asset Value per Unit	3.336	3.661
No. of Units (End of Period)	367,542,933	425,751,253
Distribution Rate per Unit	0.175	0.175

*Prior period has been restated to conform with current period reporting on a total return basis.

III. GIFTS, TRUSTS AND ESTATES

1. U. T. System: Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for September 1, 1995 Through October 5, 1995. --Committee Chairman Hicks reviewed the Summary of Gift Acceptance and Related Administrative Actions Conforming to Board Policy for The University of Texas System for the period September 1, 1995 through October 5, 1995, as prepared by the Office of Development and External Relations and as set forth below:

ACCEPTANCE OF GIFTS HELD BY BOARD

<u>COMPONENT INSTITUTION</u>	<u># OF ITEMS</u>	<u>ASSET TYPES</u>					<u>TRANSFERS</u>	<u>MATCHING FUNDS</u>	<u>TOTAL VALUE</u>
		<u>CASH</u>	<u>SECURITIES</u>	<u>REAL ESTATE</u>	<u>PLEDGES</u>	<u>OTHER</u>			
U. T. Austin	18	\$ 565,529	\$ 4,558	---	\$ 44,013	---	\$ 25,000	\$152,634 *	\$ 639,900
U. T. Dallas	1	500,000	---	---	---	---	---	---	500,000
U. T. Permian Basin	1	10,000	---	---	---	---	---	---	10,000
U. T. Tyler	4	47,500	26,046	---	12,500	---	---	---	86,046
U. T. SWMC-Dallas	8	200,000	49,312	---	---	---	839	150,000 *	250,151
U. T. M.B.-Galveston	3	1,500,000	---	---	---	---	---	---	1,500,000
UTHSC-Houston	1	---	---	---	---	---	---	---	---
UTHSC-San Antonio	1	---	---	---	---	---	---	---	---
TOTAL	37	\$2,823,029	\$ 79,916	---	\$ 57,313	---	\$ 25,839	\$302,634 *	\$2,986,097

* Matching funds already held by Board not included in total.

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. Austin	17 .	---	---	---	3	---	---
U. T. Dallas	1	---	---	---	---	---	---
U. T. Permian Basin	1	---	---	---	---	---	---
U. T. Tyler	4	---	---	---	---	---	---
U. T. SWMC-Dallas	7	---	---	---	1	---	---
U. T. M.B.-Galveston	3	---	---	---	---	---	---
UTHSC-Houston	1	---	---	---	---	---	---
UTHSC-San Antonio	1	---	---	---	---	---	---
TOTAL	35	---	---	---	4	---	---

PURPOSES OF GIFTS HELD BY BOARD AND OTHERS

ENDOWMENT

<u>COMPONENT</u>	<u>INSTITUTION</u>	<u>DIST.</u> <u>CHAIR</u>	<u>CHAIR</u>	<u>DIST.</u> <u>PROF'SHIP</u>	<u>PROF'SHIP</u>	<u>FACULTY</u> <u>FELL'SHIP</u>	<u>GRADUATE</u> <u>FELL'SHIP</u>	<u>SCHOLARSHIP</u>	<u>OTHER</u>	<u>CURRENT</u> <u>PURPOSE</u>	<u>OTHER</u> <u>PURPOSE</u>
U. T. Austin		---	---	---	---	1	1	11	---	---	---
U. T. Dallas		---	---	---	---	---	---	1	---	---	---
U. T. Permian Basin		---	---	---	---	---	---	1	---	---	---
U. T. Tyler		---	---	---	---	---	---	4	---	---	---
U. T. SWMC-Dallas		---	---	1	4	---	---	---	---	---	---
U. T. M.B.-Galveston		3	---	---	---	---	---	---	---	---	---
UTHSC-Houston		---	---	---	---	---	---	---	---	---	---
UTHSC-San Antonio		---	---	1	---	---	---	---	---	---	---
TOTAL		3	---	2	4	1	1	17			

Total purposes may not equal total number of items for each component, due to the fact that some items pertain to multiple purposes.

OTHER ADMINISTRATIVE ACTIONS

<u>COMPONENT INSTITUTION</u>	<u>ESTABLISH ENDOWMENT</u>	<u>REDESIGNATE ENDOWMENT LEVEL</u>	<u>OTHER REDESIGNATION</u>	<u>DISSOLVE ENDOWMENT</u>	<u>APPROVE/ALLOCATE MATCHING</u>	<u>ACCEPT TRUSTEESHIP</u>	<u>OTHER</u>
U. T. Austin	11	---	5	---	1	---	1
U. T. Dallas	1	---	---	---	---	---	---
U. T. Permian Basin	1	---	---	---	---	---	---
U. T. Tyler	4	---	---	---	---	---	---
U. T. SWMC-Dallas	5	---	---	3	4	---	---
U. T. M.B.-Galveston	---	3	---	---	---	---	---
UTHSC-Houston	---	1	---	---	---	---	---
UTHSC-San Antonio	---	1	---	---	---	---	---
TOTAL	22	5	5	3	5	---	1

COMPARATIVE SUMMARY OF GIFTS ACCEPTED

'FISCAL YEAR 1996

<u>COMPONENT INSTITUTION</u>	<u>FY 1995 FULL YEAR</u>	<u>9/1/95 to 10/5/95</u>
U. T. Arlington	\$ 476,474	---
U. T. Austin	11,154,914	\$ 639,900
U. T. Brownsville	220,000	---
U. T. Dallas	10,578	500,000
U. T. El Paso	854,886	---
U. T. Pan American	524,267	---
U. T. Permian Basin	567,500	10,000
U. T. San Antonio	150,300	---
U. T. Tyler	365,000	86,046
U. T. SWMC-Dallas	4,999,190	250,151
U. T. M.B.-Galveston	3,795,794	1,500,000
UTHSC-Houston	1,068,967	---
UTHSC-San Antonio	273,834	---
UTMDACC	1,230,048	---
U. T. HC-Tyler	748,608	---
TOTAL	\$ 26,440,360	\$ 2,986,097

2. U. T. System: Approval of Amendments to the Gifts Policy Guidelines.--In order to recognize the transfer of responsibility for the acceptance, processing, and administration of gifts from the Office of Asset Management to the Office of Development and External Relations and to incorporate minor editorial amendments, the Asset Management Committee recommended and the Board amended The University of Texas System Gifts Policy Guidelines, adopted by the U. T. Board of Regents at its August 1995 meeting, to read as set forth below.

See Page 3 related to amendments to the Regents' Rules and Regulations regarding the processing of private gifts.

U. T. SYSTEM GIFTS POLICY GUIDELINES

Gifts are critical to The University of Texas System's mission to develop and maintain quality in faculty, students, and facilities. The U. T. Board of Regents (the "Board") recognizes the importance of establishing policies and procedures to meet the development needs of the U. T. System and component institutions and of directing vigorous efforts to attract private fund support. These Policy Guidelines are intended to allow staff members to respond to donor initiatives more quickly and with more certainty in order to design gifts which are beneficial both to the donor and to the U. T. System. Additionally, these Policy Guidelines are intended to establish administrative processes to accept and administer gifts in a fiduciarly prudent and efficient manner. When these Policy Guidelines do not indicate the appropriate course of action, or are inappropriate in light of all aspects of a specific situation, staff members are to work with the relevant offices as outlined in these guidelines to establish the recommended course of action. These guidelines are further intended to provide direction solely to U. T. System employees working with gifts and should not be distributed to donors.

Section I. Responsibility to Donors

- A. In all gift matters, U. T. System and component institution staff must be aware of and sensitive to the potential donor's financial needs and concerns.
- B. All representatives of the U. T. System and the component institutions shall use their best judgment to help donors make appropriate gifts. Each representative should be knowledgeable about gifts and should disclose to the donor advantages and disadvantages that could reasonably be expected to influence the decision of the donor to make a gift to the U. T. System and/or the component institutions. In particular, planned gift items subject to variability (such as market value and income payments) should be discussed fully. All prospective donors shall be advised in writing to seek legal and/or tax advice from their own counsel.
- C. The Board will not knowingly accept a gift that is contrary to the donor's best interests.

- D. The U. T. System will not under any circumstances (a) furnish property appraisals or valuations to donors for tax purposes or (b) knowingly participate in a transaction in which the value of a gift is inflated above its true fair market value to obtain a tax advantage for a donor.
- E. In accordance with the provisions of the Internal Revenue Code and related regulations, proper records will be kept and required tax returns filed by the Office of Development and External Relations ("DER") or its designated agent for all gifts processed and/or administered by the DER. The Vice Chancellor for Development and External Relations or his/her designee(s) shall execute all necessary IRS Forms, including IRS Forms 8283 and 8282, that relate to gifts processed and/or administered by the DER. Forms 8283 and 8282 will otherwise be executed by appropriately designated component officer(s) at each institution.
- F. All donative instruments will be deemed confidential to the extent permitted by law. However, a donor may authorize public announcement of any feature of an agreement. All files will be made available upon request to agents of the Internal Revenue Service. All other requests for information will be honored only if the donor approves the release of information or if current law requires release of the information.

Section II. Review and Acceptance of Proposed Gifts

- A. The chief administrative officers of the component institutions should develop and implement Handbook of Operating Procedures policies consistent with these policy guidelines for the review and acceptance of gifts which are delegated by the Regents' Rules and Regulations to the chief administrative officers.
- B. The Regents' Rules and Regulations provide that the Vice Chancellor for Development and External Relations, or his/her designee(s), is delegated the authority to formally accept, following review and approval by the appropriate Executive Vice Chancellor, all gifts to be processed and/or administered by the DER (as set out in Regents' Rules and Regulations) which comply with all relevant laws and Board policies, including, but not limited to, the provisions of these Policy Guidelines. Accordingly, all such gifts shall be submitted directly to the Vice Chancellor for Development and External Relations, or his/her designee(s), following the routine procedures outlined below.
- C. If the donor requests or requires that a donative instrument or other gift documentation be signed by an authorized representative of the Board, the document may be signed by the Vice Chancellor for Development and External Relations or his/her designee(s) only after acceptance of the endowment as provided in these guidelines.
- D. Any proposed gifts which do not conform to these guidelines shall be referred to the Board for approval via the Agenda following a review of the terms of the proposed gift and a recommendation for a waiver of policy by the Chancellor.

Section III. Gift Processing

- A. Component institution business offices and development offices, the Office of Academic Affairs ("OAA"), the Office of Health Affairs ("OHA"), the Office of Business Affairs ("OBA"), the Office of Development and External Relations, and the Office of General Counsel ("OGC") should operate in a cooperative manner to insure prompt transmission of information on proposed gifts. Gifts of cash, marketable securities, and real estate should be transmitted, in the prescribed manner, to the DER as soon as practicable.
- B. In order to facilitate the gift acceptance process, requests for acceptance of proposed gifts by the Vice Chancellor for Development and External Relations, or his/her designee(s), shall be transmitted to the DER via an automated gift acceptance processing system (GAPs).

Section IV. Donated Assets Requiring Prior Review

- A. All gift assets processed and/or administered by the DER (as set out in Regents' Rules and Regulations), other than cash or marketable securities, must be reviewed by the DER in conjunction with the Designated Investment Manager ("DIM") and/or the U. T. System Real Estate Office ("REO"), as appropriate, prior to acceptance. Reviews to determine whether a proposed gift asset should be accepted shall include consideration of any required cash expenses, liabilities, contingent liabilities, unrelated business income taxes, donor requirements which may result in risk of loss, as well as any other source of funds available to cover such expenses and liabilities. The DER in conjunction with the DIM and/or the REO shall determine whether the economic risks are appropriate prior to acceptance of the gift.
- B. Assets to be processed and/or administered by the DER that create potential unrelated business income tax liability must be reviewed by the DER in conjunction with the DIM for economic implications and by the OGC for legal implications.
- C. Gifts of interests in general partnerships, limited partnerships, and working interests may be accepted, subject to a thorough legal and financial analysis by the OGC and the DER in conjunction with the DIM. Interests in general partnerships, limited partnerships, and working interests will not be accepted as assets in a charitable remainder trust. Ownership of these assets could create unrelated business income tax liability for the trust. (See Section VI.A. below.)

Section V. Gifts to Establish Endowments

- A. Administrative Policy
 - 1. A written donative instrument shall be provided for each new endowment fund established. This instrument would preferably include language

encouraged in the applicable sections of these guidelines and sample agreements provided by the DER, as well as the following:

- a. a statement that these funds shall never become a part of the Permanent University Fund or the general funds,
 - b. a statement providing that additions to the endowment from any other person or entity, unless prohibited, are made subject to the provisions of the donative instrument, and
 - c. a statement that if, in the opinion of the Board, future circumstances change so that the purposes for which the endowment is established become illegal, impractical or no longer able to be carried out to meet the needs of the component institution, the Board may designate an alternative use for the endowment payout to further the objectives and purposes of the component institution, giving consideration to the donor's special interest as evidenced by the original purpose of the endowment.
2. In cases where an endowment is established pursuant to a component solicitation or campaign, the solicitation letter or document sent to the donor or donors may be used as the donative instrument to evidence the donative intent and purposes.
 3. As a practical matter, the assets donated to fund an endowment may be delivered to the DIM for custody and investment pending acceptance.

B. Pledge Policy

1. Pledges from donors that follow these guidelines may be accepted to fund endowments of any level recognized by the Regents' Rules and Regulations.
2. At least 20% of the donor's total proposed funding must be received before the endowment will be accepted.
3. The pledge for payment of the remaining funds shall not extend beyond five years from the date of execution of the donative instrument.
4. All funds that are otherwise distributable from the endowment will be reinvested as a permanent addition to principal until the endowment is funded with the then required minimum funding level for an endowment or is dissolved as provided in 5. below.
5. In the event that the donor is unable to fulfill the pledge by the end of the five-year period, the endowment will either be dissolved or redesignated as follows:
 - a. If endowment funds are less than the minimum endowment funding level, the endowment may be dissolved and the chief administrative officer of the beneficiary component shall have the discretion to designate an existing endowment to which to transfer the funds, taking into consideration the donor's original intent.

- b. If endowment funds are in excess of the minimum endowment funding level, but are less than the level prescribed for the type of endowment originally approved by the Board, the endowment may be redesignated to the highest level possible based upon the funds held and the donor's intent.

C. Amendment or Termination

1. Once an endowment is created the terms, purpose, or existence of that endowment may be changed only if specifically authorized by the terms of the donative instrument, Board policy, and/or applicable laws. For example, the Texas Education Code, Section 65.36 and the Texas Uniform Management of Institutional Funds Act, allow the Board to change the terms of an existing endowment when there is a showing of changed conditions, illegality or impracticability.
2. Any request to amend the terms or purpose of an endowment or to terminate an endowment must be sent to the DER for coordinated review and approval.

D. Selection Criteria for Scholarship and Fellowship Recipients

1. The U. T. System prefers that donors of endowed scholarships and fellowships set only minimal restrictions or criteria for selecting students who may receive awards in order to allow flexibility to award the scholarship on a consistent basis.
2. The donor may wish to set certain parameters for the award of scholarships and fellowships. If such is the case, the following considerations are outlined:
 - a. A donor may designate a scholarship or fellowship for component-wide use.
 - b. A donor may prefer that the scholarship or fellowship recipient be registered in a particular college, school or department within the component. Or, the recipient may be limited to students studying in a specific academic major or a certain area of study or concentration.
 - c. A donor may designate that the scholarship or fellowship recipient have a specified class standing, or have completed a specified number of semester hours of college work.
 - d. A donor may designate that consideration of recipients be tied to academic performance.
 - e. A donor may elect to tie the award to the consideration of financial need.
 - f. A donor may indicate a preference associated with the renewal of the award.

- g. A donor may designate that recipients be students from a particular geographic area (city, school district, county, or state). The population of U. T. students from the named geographic area should be large enough to allow for consistent use of the scholarship and to avoid an argument that the funds were "targeted" to a particular individual or individuals.
 - h. A donor may designate that the funds be awarded to a citizen or permanent resident of the United States. Any gift to be designated for U. S. citizens must also include permanent residents.
3. Based on the U. T. System's extensive experience with the awarding of student scholarships and fellowships, and in compliance with Regents' Rules and Regulations, Department of Education regulations, Office of Civil Rights recommendations, and interpretations of the Texas Higher Education Coordinating Board, certain other criteria should, if critical to the donor, be noted as a preference for recipient selection rather than included as a restriction.

The U. T. System will attempt to honor as a preference a donor's request that specific selection criteria be included in a particular endowed scholarship. The Regents' Rules and Regulations do, however, provide as follows: Policy Against Discrimination.--To the extent provided by applicable law, no person shall be excluded from participation in, denied the benefits of, or be subject to discrimination under, any program or activity sponsored or conducted by the System or any of its component institutions, on the basis of race, color, national origin, religion, sex, age, veteran status, or disability.

Component institution staff members are encouraged to speak with appropriate U. T. System personnel in advance for guidance in determining the propriety of selection criteria.

4. The language which establishes an endowment for a scholarship or fellowship should not include language which requires a specific dollar amount of an annual award. Any reference to the size of an award should be tied to the "funds distributed" with an indication that the size and number of awards will be determined by the appropriate component College/School/Unit/Department scholarship committees or under the scholarship program applicable to the endowment. Specified amounts may also be referred to in more general terms such as "tuition and required fees."

5. It must be made clear that the donor may not participate in the final selection of scholarship recipients, name a non-U. T. employee to any final selection committee, or structure the criteria so narrowly as to limit selection to a small population comprised solely or primarily of individuals related to the donor or that the donor would choose without this restriction. The Internal Revenue Service will not recognize the contribution for charitable tax deduction purposes if the donor retains any control over the gift funds or how they are used.

E. Quasi-endowments

1. Quasi-endowment funds (funds functioning as endowment) are funds which the Board, rather than a donor or other outside agency, has determined are to be retained and invested as endowments. Requests to establish quasi-endowments should be submitted only when it is expected that the endowment will be maintained permanently. Because of the resulting investment considerations, requests to establish temporary quasi-endowments must be reviewed and approved by the DER in conjunction with the DIM.
2. At the time a request is made to establish an endowment, the source(s) and amount(s) of funds used to create the endowment will be reviewed by the DER to determine whether a single permanent endowment, a single quasi-endowment, or separate but related permanent and quasi-endowments will be established in accordance with the following guidelines.
3. When mixed sources of funds are used to establish an endowment, separate permanent and quasi-endowments will be created when each endowment account will be funded with at least the minimum endowment funding level of \$10,000. (i.e., There would need to be at least \$20,000 total to establish separate endowment accounts.) If the endowment is initially funded with less than \$20,000 from mixed sources, the entire endowment will be classified as a permanent endowment.
4. If only one endowment account exists at the time of an additional contribution of any amount to an existing endowment fund, the source(s) of funds will be reviewed to determine if a related quasi- or permanent endowment account, as appropriate, should be established.
5. If separate permanent and quasi-endowment accounts exist at the time of an additional contribution of any amount, the source(s) of funds will be determined so that the contribution may be allocated between the accounts accordingly.
6. The total of a donor's pledge at the time the pledge is made, rather than the amounts of the payments when received, will be used to determine whether separate endowment accounts should be established.
7. Any reinvestment of endowment income will be classified in the same manner as any other transfer of institutional funds.

8. Notwithstanding any of the above, any institutional funds contributed to the endowment at the time it is established, or as a later addition, that are subject to a donor's condition that the funds be retained as a permanent addition to the endowment will be classified as permanent endowment funds.
9. If the strict application of this policy would materially distort the classification of the endowment as a whole, a review of the source(s) and amount(s) of total contributions to the endowment will be made to determine if any reclassifications are advisable.

F. Investment Policy

1. The DIM shall invest all endowment funds donated to the U. T. System or its component institutions which are under the sole control of the Board. The Board shall not authorize the DIM to administer and manage endowments of which the Board, or another U. T.-affiliated nonprofit organization is not trustee. No matching funds or other funds of the U. T. System may be held or managed by a party selected by the donor. No endowment shall be accepted in which the donor directs the investment transactions or holdings or may approve investment policy or strategy. Restrictions by the donor on the sale or timing of the sale of donated property will be viewed as an investment restriction (since they will affect investment performance). An absolute prohibition against selling a donated asset cannot be approved.
2. Pursuant to the provisions of the Texas Education Code, the primary and constant standard for making investment decisions for endowments is the "Prudent Person Rule" which states that the investment manager may trade and retain investments... "that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital."
3. It is the specific and strong preference of the Board that all endowment gifts be eligible for commingling for investment purposes with other endowment funds. The Board has established the U. T. System Long Term Fund, governed by and invested according to the U. T. System Long Term Fund Policy Statement, to provide for the collective investment of endowment funds. This commingling permits enhancement of long-term investment programs, affords appropriate risk control through diversification, and provides for optimization of asset mix through time. It follows that specific language which allows endowment funds to be invested in the U. T. System Long Term Fund or otherwise pooled for investment purposes should be included in all donative instruments.

G. Payout and Reinvestment Policy

1. A donative instrument shall not include terms regarding endowment payout that conflict with either the payout policies established by the Board or the payout provisions of the Texas Uniform Management of Institutional Funds Act, as amended.
2. In order to ensure that the Board has the ability to manage payout and reinvestment policies, the donative instrument should specifically allow the following:
 - a. funds distributed during a year to be retained by the component and expended for the purposes of the endowment in subsequent years, and
 - b. the reinvestment of some portion of the payout as a permanent addition to the principal of the endowment at the discretion of the Board or component institution staff.
3. All payout from endowments supporting unfilled academic positions shall be reinvested except for amounts necessary to fund costs relating to recruitment activities specific to the endowment or to cover the cost of programs and positions in direct support of the endowment purpose as authorized by the donative instrument. Any exceptions require, at a minimum, the approval of the appropriate Executive Vice Chancellor.

Section VI. Planned Gifts

A. Restrictions on Acceptance of Planned Gifts and Donated Assets

1. State law prohibits the Board from accepting gift annuities and deferred gift annuities. Inquiries concerning gift annuities and deferred gift annuities will be referred to appropriate external foundations established to benefit the U. T. System and/or its component institutions.
2. The Board is willing to serve as trustee of trusts that are revocable by the donor, or where the donor retains the right to change the charitable beneficiary only if: (1) the U. T. System component institution will receive irrevocably at least 51% of the total funding of the trust; and (2) the value of the U. T. System component institution's irrevocable interest equals the minimum requirements established below in F.2. for accounts that cannot be pooled for investment purposes. These restrictions have been established to insure that Article III, Section 51 of the Texas Constitution is not violated. (Section 51 has been interpreted to prohibit the Board from providing trustee services to an individual without receiving a commensurate benefit in return.)

3. The Board is willing to serve as trustee of trusts which allow for invasions of principal based upon objective, nondiscretionary standards only if: (1) the U. T. System component institution will receive irrevocably at least 51% of the total funding of the trust; and (2) the value of the U. T. System component institution's irrevocable interest equals the minimum requirements established below in F.2. for accounts that cannot be pooled for investment purposes. The Board should not be asked to serve as trustee of trusts which allow income beneficiaries to invade the principal of the trust at the discretion of the trustee because of the potential for conflicts of interest and the constitutional provision referred to in A.2. above.
4. The Board is willing to serve as trustee of a charitable remainder trust with multiple charitable remainder beneficiaries only if: (1) the U. T. System component institution will receive at least 51% percent of the remainder; (2) the value of the U. T. System component institution's interest will be at least the minimum trust gift levels established below in F.2.; and (3) the other charities agree to provisions deemed appropriate by the OGC.
5. Because of the current tax laws and the potential for conflicts of interest, the Board will accept charitable lead trusts as a beneficiary, but will not serve as trustee of charitable lead trusts. Upon request, information may be provided the donor on institutions in his/her locale having the legal authority to act as a trustee.
6. Section 690 of the Texas Probate Code prohibits the Board from accepting a gift which would require the Board to serve as a guardian of the person or estate.
7. A planned gift that has the potential to create unrelated business income tax liability for a charitable remainder trust may not be approved for acceptance because of potential adverse tax consequences that result to the trust and the income beneficiary. (In a year in which a charitable remainder trust has any unrelated business income, the trust loses its tax-exempt status for the entire year.)
8. Stock in a Subchapter-S corporation will not be accepted without the written consent of all other shareholders to forfeit the corporation's Subchapter-S status.

B. Gifts of Real Property with Retained Life Estates

1. Gifts of real estate with retained life estates shall be reviewed and approved by the DER and REO prior to acceptance of the gift. Acceptance of such gifts must also be in accordance with the guidelines for acceptance of outright gifts of real property as set forth below.

2. Such gifts shall be accepted only if adequate provision is made by the donor for any expense in connection with ownership, including payment of mortgages, taxes, insurance and utilities, unless a source of funds to cover such expenses has been identified by the component institution for whose benefit the gift is being made.

C. Wills and Bequests

1. Sample language approved by the OGC may be provided to an individual inquiring about naming the U. T. System or a component institution as a beneficiary.
2. If an individual provides a copy of his or her will naming the U. T. System or a component institution as a beneficiary, a copy of the will shall be sent to the Office of Estates and Trusts ("OET") for review. As necessary, the OET shall furnish copies to the OGC and the component institution development office for further review. Any person to whom an individual's will is furnished must protect the confidentiality of its contents.
3. The Board will not serve as executor or administrator of an estate because of the potential for conflicts of interest and the scope of the required duties.
4. U. T. System and component institution employees who agree to serve as executor or administrator of a donor's estate which benefits a U. T. System component institution are immediately to notify the OET of their appointment. Upon notification, the employee will be furnished a statement advising of the potential for conflicts of interest and directing that all communications pertaining to the estate between the employee and any office of the U. T. System or the component institutions shall be in writing.
5. U. T. System and component institution employees should not knowingly act as witnesses to wills in which the U. T. System or a component institution is named as a beneficiary because their doing so may jeopardize the receipt of the bequest.
6. When a component institution is notified of the death of a person who has named a U. T. institution as a beneficiary, the OET should be notified immediately and forwarded copies of all available documentation and correspondence. If the OET is notified of the death of a person who has named a U. T. component institution as a beneficiary, the OET shall notify the named component institution. The OET has exclusive authority to handle matters related to estates benefiting a U. T. institution, including authority to sign partial or complete releases of liability, and will be responsible for promptly supplying documentation to other U. T. System offices as appropriate.

7. The DER will provide instructions regarding the disposition of estate assets. All estate distributions other than tangible personal property will be sent as directed by DER. Any tangible personal property not liquidated by the Executor should be shipped directly to the component institution. Unless otherwise requested by the component institution, any bequests designated for use as current restricted funds will be promptly transmitted to the institution.

D. Life Insurance

1. With the concurrence of the DIM, gifts of life insurance policies naming the Board as owner and/or beneficiary may be accepted in accordance with the Regents' Rules and Regulations for acceptance of gifts.
2. A component institution is responsible for preserving the value to the U. T. System component institution of a life insurance policy owned by the Board pursuant to institutional guidelines. The guidelines should cover situations in which the insurance policy is not paid-up and does not have any source of funds for payment of the premiums identified at the time of the gift or thereafter.

E. Gifts of Interests in "Family" Limited Partnerships

1. Gifts of interests in family limited partnerships may be accepted, subject to a thorough analysis by the DIM, the OGC, and the DER of all available information. At a minimum, the U. T. System should receive copies of the limited partnership agreement, the proposed assignment of interest, and financial documentation sufficient to describe the assets of the partnership and their valuation.
2. In analyzing a proposed gift of an interest in a family limited partnership, the intent is to confirm that there is a real benefit to be derived by the component institution that is commensurate with any potential risks associated with the gift. Among the factors that will be considered are the following:
 - a. What is the donor's relationship to the component institution designated to benefit from the gift? Is there a history of demonstrable charitable intent? Is this merely a tax accommodation for the donor?
 - b. Is there a presently calculable guaranteed minimum amount intended to be distributed to the U. T. System during the existence of the limited partnership?
 - c. What administrative obligations would be assumed by the U. T. System? For example, would any of the activities of the partnership require U. T. to track for additional unrelated business income tax reporting?

- d. Will the U. T. System receive a guaranteed annual income from the partnership interest sufficient to defray administrative costs? In lieu of an annual income payment, is there a cumulative payment made in the form of a preferred return before distributions to other partners at the termination of the partnership?
 - e. Does the partnership agreement provide for a defined distribution/termination event or date?
 - f. Does the U. T. System have any obligation to make capital contributions to the partnership?
 - g. Can the U. T. System be held liable for debts of the partnership?
 - h. Does the partnership appear to be adequately capitalized in light of its activities? Does it maintain liability insurance?
- 3. The U. T. System cannot agree to be bound by any confidentiality requirements at variance with the Texas Open Records Act.
 - 4. The U. T. System should receive a full accounting for the partnership annually.

F. Charitable Trusts

- 1. Because of the potential for conflicts of interest, U. T. System and component institution employees who agree to serve as trustee of a trust benefiting a U. T. System component institution are immediately to notify the OET of their appointment. Upon notification, the employee will be furnished with a statement advising of the potential for conflicts of interest and directing that all communications pertaining to the trust between the employee and any office of the U. T. System or the component institutions shall be in writing.
- 2. A life charitable remainder trust of which the Board is proposed to be trustee should have no more than two income beneficiaries, the youngest of which is at least 55 years of age. A term charitable remainder trust may have income beneficiaries of any age.

If the trust: (1) has acceptable terms, (2) is funded with cash or marketable securities, and (3) may be pooled for investment purposes, the trust should be initially funded at a minimum gift level of \$50,000.

If the trust: (1) has acceptable terms, (2) is funded with cash or marketable securities, and (3) may not be pooled for investment purposes, the trust should be initially funded at a minimum gift level of \$100,000.

If the trust is funded with assets other than cash or marketable securities, the terms of the agreement must be reviewed and approved by the DER in conjunction with the DIM and, when necessary, the OGC. A unitrust with a net income payout or net income with makeup provision payout should be established for trusts funded with assets other than cash or marketable securities. Other acceptable terms depend upon the standard criteria plus the ability and length of time required to liquidate or manage the asset used to fund the trust. Such trusts shall be reviewed by the DER in conjunction with the DIM and, when necessary, the OGC prior to acceptance.

G. Pooled Income Fund

1. Gifts to a Pooled Income Fund may be accepted only for beneficiaries over the age of 55 if there are no more than two income beneficiaries for each account established in a Pooled Income Fund by a donor. The minimum gift needed to enter a Pooled Income Fund is \$10,000, or a contribution of \$5,000 with a pledge that additional contributions will be made to bring the total dollar share in the Fund to \$10,000 within five years.
2. The Pooled Income Fund charter requires that all gifts must be made in cash or readily marketable securities.

H. Management and Investments

1. The Board shall not authorize the DER to administer and manage charitable trusts of which the Board is not trustee.
2. The U. T. System may request reimbursement from a charitable trust for any third party charges incurred by the trust. Such charges may include, but are not limited to, bank custodial fees, real estate expenses such as appraisals, surveys, environmental assessments, maintenance and repairs, and extraordinary legal fees. In circumstances where it is deemed inappropriate for the affected trusts to bear such expenses, reimbursements shall be made by the component institution for whose benefit the trust is administered.

I. Solicitation and Negotiation

1. Any advertisement or planned giving brochure to be mailed or otherwise furnished to potential donors shall be sent to the OAA or the OHA, as appropriate, for administrative approval following coordinated review for compliance with policy statements by that office and the DER, the DIM, and the OGC, before distribution to donors. Every attempt should be made to complete the reviews and provide a definitive response within two weeks of receipt of the materials.

2. Negotiation, execution, and acceptance of any planned gift shall follow procedures outlined in these guidelines. All agreements shall conform to the sample agreements approved by the OGC unless otherwise approved in accordance with the procedures set forth in these guidelines.
3. The chief administrative officer of each U. T. System component institution shall designate in writing to the Vice Chancellor for Development and External Relations the staff members who are authorized to enter into negotiations concerning planned gift agreements with potential donors. All negotiations shall be conducted in accordance with these guidelines and the format of the sample agreements approved by the OGC.
4. It is the responsibility of each U. T. System or component institution representative to keep detailed written notes to supplement written correspondence as evidence of ethical practices in negotiations with each donor.
5. The representative working with a donor who desires to make a planned gift shall contact the DER as soon as possible.
6. The DER shall furnish approved payout rates to all U. T. System and component institution staff members authorized to enter into negotiations concerning planned gift agreements to assist them during discussions with donors.
7. Donors should be informed that approved payout rates may be adjusted if market conditions change significantly before an agreement is finalized. Requested payout rates for charitable trusts are to be approved immediately prior to finalization of the trust by the Vice Chancellor for Development and External Relations, or his/her designee(s), in conjunction with the DIM. Any request to deviate from the approved payout rates established by the DER, in conjunction with the DIM shall be considered in the same manner as outlined for gifts that deviate from these policy guidelines.
8. If the donor requests or requires that the donative instrument be signed by a representative of the Board, the document may be signed only after acceptance of the gift.

Section VII. Gifts of Securities

A. Authorized Persons

When securities are donated to the U. T. System or a component, the OET is to be contacted immediately for instructions, even if the sale proceeds are to be returned to the component institution for current purpose use. The Regents' Rules and Regulations authorize only certain persons to purchase, exchange, sell, assign and transfer securities on behalf of the Board. No other person or entity may execute or instruct others to execute a transaction involving any securities in the name of the Board.

B. Gifts of Closely-Held Stock

1. A cooperative effort should be made to obtain repurchase provisions in the donative instrument when securities are donated for which the donor or related parties are the primary market.
2. As applicable, the following criteria, in addition to those outlined in Section IV above, must be met in order for the U. T. System to approve and/or accept gifts of closely-held stock:
 - a. There must be a written donative instrument indicating the donor's intention to make the gift and its purpose.
 - b. The donor must provide financial/valuation information on the stock, including appraisals and/or statements of value.
 - c. Copies of any shareholder agreements/buy-sell agreements that the Board would be subject to as shareholders should be provided, especially those that include any restrictions on the transfer of the stock, i.e., rights of first refusal, formulas for determining stock price.
 - d. The donor must provide a written copy of any related offer to purchase the stock, including the purchase price per share.
 - e. The ownership of the stock must be properly assigned by the donor to the Board.

Section VIII. Gifts of Real Estate

A. Real Estate Defined

For the purpose of these policy guidelines, real estate shall be defined to be all surface and/or mineral assets other than campus land which is donated or bequeathed to the U. T. System or any of its component institutions regardless of type, location, or designated use of the funds to be derived therefrom.

B. Acceptance

1. A proposed gift of real estate to the U. T. System or its component institutions will be evaluated for its potential for immediate or future sale or retention. Such gift will be accepted if proceeds can be realized in a timely manner relative to the expenses and efforts required to hold, maintain and manage the property until disposition or there exists an effective direct use of the real estate by a component institution.
 - a. All gifts and bequests of real estate must be evaluated and inspected by an authorized representative of the REO prior to acceptance.

- b. An evaluation of the return expected from a gift of real estate shall include but not be limited to such factors as income potential, development characteristics, type of property interest, holding costs, management requirements, holding period and location. (See Section VIII. C. 2. a. - 1. and 3. a. - 1.)
 - (1) Gifts of surface interests which are expected to net less than \$25,000 upon sale will not be accepted; and
 - (2) Gifts of mineral interests other than working interests will be accepted if they are expected to generate a minimum net income of \$2,500 per year.
 - (3) Combined gifts of surface and mineral interests will be accepted if each individual interest meets at least the minimum acceptance criteria noted in (1) or (2) above.
- c. Gifts of real estate will be accepted if adequate provision is made by the donor or the component institution for any expenses of management until disposition. Whenever possible, the donor should be encouraged to contribute funds for the management of the property until disposition occurs. Any unreimbursed costs of management or sale of the property including disposal will be charged either against income earned by the property or proceeds from the sale of the property as appropriate.
- d. Gifts of real estate may be considered for retention as investments when either:
 - (1) the return exceeds that which can be expected when the net sale proceeds are invested in the U. T. System Long Term Fund, or
 - (2) there is a prospect for direct use by an approved program of a component institution.
- e. The authority to accept gifts and bequests of real estate is vested in the Board for the benefit of the designated component or fund. Therefore, title to each property shall be held in the name of the Board, not in the name of any component institution, department or individual within the U. T. System. (See Section VIII. C. 1. - 5.)
- f. It shall be the policy of the Board to accept interests in real estate if such ownership will result in 100% interest in the property. Lesser interests in real estate will be accepted when a clear benefit to the U. T. System can be demonstrated. Minority interests in minerals, other than working interests, will be accepted if the gift or bequest meets the requirements outlined in B.1.b. above.

2. Gifts of real estate will not be accepted if donor restrictions place undue limitations on the U. T. System's ability to own, manage, and dispose of the property.
3. Gifts of mortgaged or encumbered property will not be accepted unless:
 - a. a clear potential for gain can be demonstrated,
 - b. a source of funds to meet all requirements is dedicated to that purpose, and
 - c. acceptable terms of the mortgage or the encumbrance exist.
4. The Board will not subordinate its fee simple interest in any holding of real estate absent extraordinary circumstances.

C. Procedures for Acceptance of Gifts of Real Estate

1. The REO should be contacted immediately upon identification of a potential gift of real estate in order to determine if the property is acceptable. The REO will obtain a title report, title policy or abstractor's certificate on each potential gift of real estate to insure that there are no recorded liens or encumbrances on the proposed gift. The fee for this report shall be charged to the component institution for which the gift is intended.
2. Prior to acceptance of a proposed gift of real estate the following should normally be provided by the donor:
 - a. Map showing location of property
 - b. Legal description of property
 - c. Proof of ownership (deed)
 - d. Survey of subject property
 - e. List of improvements
 - f. Copies of current leases, if any
 - g. List of encumbrances, including deed restrictions or covenants, liens and current expenses, if any
 - h. Proof of payment of taxes and association fees, if any
 - i. Copy of title policy or a recent title commitment
 - j. Recent appraisal or other acceptable valuation
 - k. A written statement from donor identifying any known waste disposal sites or spills of hazardous waste material on the property or a statement to the contrary
 - l. Written statement from donor outlining purpose of gift.

3. Prior to acceptance of a proposed mineral gift, the following should normally be provided by the donor:
 - a. Map, plat or survey of the property
 - b. Legal description of the property
 - c. Proof of ownership (deed or assignment)
 - d. Copies of current oil and gas leases, if any
 - e. Division orders
 - f. List of all encumbrances including any liens and copies of the corresponding documentation
 - g. Abstracts of title or title opinions
 - h. Geological or geophysical records
 - i. Lease ratifications and lease assignments
 - j. Copies of appraisals or reserve studies
 - k. Copies of documents relating to past or present litigation directly affecting the mineral gift or bequest
 - l. Copies of insurance coverage carried by the well operator relative to environmental damage.
4. Testing for hazardous substances shall be performed in accordance with the U. T. System Environmental Review Policy for Acquisitions of Real Estate.
5. Following review of the information provided by the donor a decision will be made to accept or reject the proposed gift based on the written recommendation of REO in light of the following:
 - a. The potential of the property to produce an acceptable return or to contribute directly to approved programs of the component institution
 - b. Holding costs of every type
 - c. Holding period
 - d. Donor restrictions
 - e. Property valuation
 - f. Management requirements
 - g. Type of property interest
 - h. Ability to meet the requirements of the U. T. System Environmental Review Policy for Acquisitions of Real Estate.

D. Management of Real Estate

1. All deeds for real estate owned by the Board shall be filed in the county where the property is located with the original retained in the permanent records of the Board.

2. It shall be the policy of the Board to retain direct control of all interests in real estate owned by the U. T. System.
3. Subject to the Regents' Rules and Regulations, responsibility for the management, leasing and sale of all real estate which is covered by this policy is delegated to the REO.
4. The Executive Vice Chancellor for Business Affairs may delegate responsibility for the management of real estate assets to individuals within the REO or its equivalent office and may employ such additional persons as he or she deems appropriate within the authority granted by the Board.
5. The Executive Vice Chancellor for Business Affairs or his/her designated representative is authorized and empowered on behalf of the Board to take all actions necessary and to execute all documents required to sell, lease or otherwise convey interests in real estate or minerals that are received by gift or bequest and that comply with these guidelines.
 - a. Approval as to legal form and documentation by the OGC shall be required for each transaction.
 - b. Any transaction accomplished under this section shall be reported to the Board as prescribed.
6. The preferred method of valuation for the purpose of determining sale price or lease rates for real estate interests shall be use of an independent State certified or other licensed appraiser. The value of transactions involving real estate of nominal value may be determined by use of available resources. An appraisal shall not be required when real estate is sold at public auction or by use of sealed bids.
7. The preferred methods of valuation for the purpose of determining sale price for mineral assets shall be by determination of a petroleum or other geological engineer, by offer solicitation, or by any other generally accepted industry standard.

E. Conflict of Interest

Members of the Board are frequently persons of wide-ranging business interests. Therefore, a prudent, independent decision process may result in real estate transactions with or involving firms or organizations with whom a member of the Board is affiliated. Affiliation shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. Unless the Board specifically finds that the transaction is in the best interest of the U. T. System or a component institution, no member of the Board or employee of the U. T. System may participate in any transaction with the U. T. System involving interests in real estate with which such Board member or employee is affiliated other than to convey a gift or bequest to the U. T. System.

3. U. T. Dallas - Excellence in Education Foundation Endowment and the Callier Center for Communication Disorders Endowment: Substitution of Minute Order to Clarify August 11, 1994, Establishment of Endowments and Rescission of Designation of Use of Income from the Excellence in Education Foundation Endowment for the Cecil and Ida Green Center Endowment.--Upon recommendation of the Asset Management Committee, approval was given to substitute the Minute Order set out below for the August 11, 1994, Minute Order establishing the Excellence in Education Foundation Endowment and the Callier Center for Communication Disorders Endowment at The University of Texas at Dallas:

Upon recommendation of the Asset Management Committee, the Board designated a previously accepted gift from the Excellence in Education Foundation, Dallas, Texas, to establish the following endowments at U. T. Dallas in accordance with the terms of the Deed of Gift dated August 27, 1975:

- a. Excellence in Education Foundation Endowment

Funds distributed from the endowment will be used at the discretion of the President for the further attainment of excellence at U. T. Dallas.

- b. Callier Center for Communication Disorders Endowment

Funds distributed from the endowment will be used to support the operation of the Callier Center for Communication Disorders at U. T. Dallas.

A portion of the funds distributed from each of the two endowments, not to exceed 15% of an endowment's net distributable funds, may be used, at the discretion of the President, for expenses of the Office of University Relations related to U. T. Dallas and the Callier Center for Communication Disorders at U. T. Dallas, respectively, provided that in the event that the one-third (1/3) share for the Callier Center for Communication Disorders Endowment is reduced in accordance with the provisions of paragraph 3 of said Deed of Gift, its permitted share for the Office of University Relations shall be reduced proportionally.

Further, the Minute Order from the August 1994 meeting of the Board of Regents that designated ten percent of the income from the Excellence in Education Foundation Endowment to be used to establish a quasi-endowment at U. T. Dallas to be named the Cecil and Ida Green Center Endowment was rescinded.

The Excellence in Education Foundation Endowment and the Callier Center for Communication Disorders Endowment were established at the August 1994 meeting of the U. T. Board of Regents with a previously accepted 1975 gift of real estate from the Excellence in Education Foundation, Dallas, Texas, and further clarified by the May 1995 Report for the Record. Additionally at the August 1994 meeting, ten percent of the income earned from the Excellence in Education Foundation Endowment was designated to establish the Cecil and Ida Green Center Endowment, a quasi-endowment, at U. T. Dallas.

This action corrects incorrect statements in the August 1994 Minute Orders related to the endowments. The 1994 actions were taken pursuant to the 1975 Deed of Gift rather than because of donor clarification or an expression of the "donor's specific wishes."

See Item 4 below.

4. U. T. Dallas: Amendment of Purpose of Cecil and Ida Green Center for the Study of Science and Society Endowment and Transfer of Funds to Establish the Green Chair in the Study of Science and Society and the Green Professor in the Study of Science and Society; Amendment of Purpose of Cecil H. and Ida M. Green Endowed Lecture Series; and Termination of the Cecil and Ida Green Center Endowment.--The Asset Management Committee recommended and the Board approved the following actions with respect to two endowments at The University of Texas at Dallas:
- a. The terms of the Cecil and Ida Green Center for the Study of Science and Society Endowment at U. T. Dallas, with a current balance of \$2,494,143.38, were amended and funds transferred to establish two other endowments as follows:
 1. The purpose of the endowment was amended to broaden its support of the activities of the Cecil and Ida Green Center for the Study of Science and Society at U. T. Dallas to specifically include but not be limited to support for graduate fellowships, undergraduate scholarships, lecture series, symposia, and faculty and student exchanges with the Green Colleges of Oxford and the University of British Columbia.
 2. From the total endowment, \$600,000 was transferred to establish two endowments at U. T. Dallas, with \$500,000 to be used to establish the Green Chair in the Study of Science and Society and the remaining \$100,000 to be used to establish the Green Professor in the Study of Science and Society.

Funds distributed from each of the endowments will be used to support the Chair and the Professorship, respectively.

- b. The endowment purpose of the Cecil H. and Ida M. Green Endowed Lecture Series at U. T. Dallas was amended to include both lectures and symposia in support of the activities of the Cecil and Ida Green Center for the Study of Science and Society at U. T. Dallas.

Due to desired modifications of activities of the Cecil and Ida Green Center for the Study of Science and Society at U. T. Dallas, the U. T. System Office of General Counsel has rendered an opinion that these endowment modifications are permissible under Section 65.36(f) of the Texas Education Code. The donors concur with these requests.

Further, the quasi-endowment at U. T. Dallas named the Cecil and Ida Green Center Endowment, with a current balance of \$71,189.42, was terminated, upon a finding that such termination was in the best interest of U. T. Dallas, and its funds transferred to U. T. Dallas to be used at the discretion of the President for educational excellence pursuant to the original donative instrument.

The Cecil and Ida Green Center for the Study of Science and Society Endowment at U. T. Dallas was established at the April 1991 meeting of the U. T. Board of Regents with a \$2,200,000 pledge from Mr. Cecil H. Green, Dallas, Texas. Additional gifts totaling \$300,000 have been received since that time. Income from the endowment was to be used to support the Cecil and Ida Green Center for the Study of Science and Society at U. T. Dallas. An operating endowment of \$7.5 million was determined to be necessary to operate the Center as initially envisioned by the donor and the institution. The total endowment goal has not been reached and funds available for the Center currently total approximately \$4.4 million. A review of Green Center operations by U. T. Dallas and discussions with Mr. Green and the advisors and trustees for the Green Foundation indicate that the Center's activities can be permissibly restructured to achieve the donor's original charitable goals within the funds available. The framework for future operations of the Center is to create a structure that is embedded into the academic life of U. T. Dallas and thereby gives faculty and students broad and continuing exposure to, and benefit from, the ideals of Cecil and Ida Green.

To this end, the reorganization planned by U. T. Dallas to be effective with the 1996-97 academic year consists of a number of relatively independent, self-sustaining operations which act in concert to effect Mr. Green's

vision of interdisciplinary activities aimed at humanizing science. The existing endowment for the Green Center will be utilized, commencing with the 1996-97 school year, to support the following:

Green Chair in the Study of Science and Society

Green Professor in the Study of Science and Society

Annual Green Symposium on Science and Society

Annual Green Lecture on Science and Society

Six Cecil and Ida Green Graduate Fellowships

Ten Cecil and Ida Green Undergraduate Scholarships

Faculty and student exchanges with the Green Colleges of Oxford University and the University of British Columbia

Operation of the Green Center facilities, including the Green Memorabilia.

The role of the Green Center Building will become a more integral part of faculty life at U. T. Dallas. Augmented food and drink facilities and expanded hours of accessibility for the Green Commons will attract faculty to the building for a wide range of intellectual and collegial activities and office space will facilitate broad interactions with the campus community.

The reorganization of Green Center activities includes the establishment of a chair and a professorship with existing endowment funds and slight modifications in the purposes of two existing endowments (the Cecil and Ida Green Center for the Study of Science and Society Endowment and the Cecil H. and Ida M. Green Endowed Lecture Series) to broaden the permissible uses of endowment fund distributions to specifically allow funds to be used for graduate fellowships, undergraduate scholarships, the Green symposia, the Green lecture series, and the Green Institution Exchange program.

The Cecil H. and Ida M. Green Endowed Lecture Series at U. T. Dallas was established by the U. T. Board of Regents at its June 1987 meeting with a transfer of \$250,000 of accumulated earnings from the Cecil H. and Ida M. Green Honors Chair in the Natural Sciences. Income from the endowment was to be used to support the Cecil H. and Ida M. Green Lecture Series at U. T. Dallas. The current balance of the endowment is \$254,734.36.

Another U. T. Dallas endowment, the Endowment for the Cecil and Ida Green Center for the Study of Science and Society, established by the U. T. Board of Regents at its February 1992 meeting with a \$350,000 gift from the Excellence in Education Foundation, Dallas, Texas, will continue to support the operation of the Cecil and Ida Green Center for the Study of Science and Society. It has a current balance of \$360,080.33.

Additionally, the Ida M. Green Endowment, established by the U. T. Board of Regents at the December 1993 meeting with \$1,326,000.79 in total distributions from the Estate of Ida M. Green, has a current balance of \$1,362,230.34. This endowment, previously designated to be used to fund educational excellence at U. T. Dallas, may also be used, as needed, for any of the activities of the Cecil and Ida Green Center for the Study of Science and Society. With these endowments, there is a total of \$4,471,188.41 in current book value of endowment funds that may be used to support the Cecil and Ida Green Center for the Study of Science and Society at U. T. Dallas.

With the restructuring of the Green Center activities, the quasi-endowment named the Cecil and Ida Green Center Endowment established at the August 1994 meeting of the U. T. Board of Regents with funds derived from an endowed gift of real estate from the Excellence in Education Foundation, Dallas, Texas, will be terminated and its funds transferred to U. T. Dallas to be used at the discretion of the President to fund educational excellence pursuant to the original donative instrument.

See Page 204 pertaining to the Excellence in Education Foundation Endowment at U. T. Dallas.

IV. INTELLECTUAL PROPERTY MATTERS

U. T. Medical Branch - Galveston: Approval of a Patent License Agreement with Chrysalis BioTechnology, Inc./ dba Gal Tech Wound Therapies (Gal Tech), Galveston, Texas; Acceptance of Stock in Gal Tech by U. T. Medical Branch - Galveston; and Authorization for Darrell H. Carney, Ph.D., to Accept Stock in and Serve on Board of Directors of Gal Tech.--Upon recommendation of the Asset Management Committee, the Board:

- a. Approved the Patent License Agreement set out on Pages 210 - 230 between the U. T. Board of Regents, for and on behalf of The University of Texas Medical Branch at Galveston, and Chrysalis BioTechnology, Inc./dba Gal Tech Wound Therapies (Gal Tech), Galveston, Texas
- b. Approved the acceptance by U. T. Medical Branch - Galveston of stock in Chrysalis BioTechnology, Inc./dba Gal Tech Wound Therapies, Galveston, Texas
- c. Approved the acceptance by faculty member Darrell H. Carney, Ph.D., at the U. T. Medical Branch - Galveston of stock in Chrysalis BioTechnology, Inc./dba Gal Tech Wound Therapies, Galveston, Texas, and service to the company as a member of its board of directors, consultant and scientific advisor.

Chrysalis BioTechnology, Inc./dba Gal Tech Wound Therapies, Galveston, Texas (Gal Tech), is a Texas corporation with principal offices in Galveston, Texas. Gal Tech develops and commercializes thrombin-derived polypeptides for modulating wound healing or scar tissue formation following tissue injury, burns, surgery or degenerative diseases.

Under the Patent License Agreement (License Agreement), Gal Tech is granted a royalty-bearing, exclusive, world-wide license to make, have made, use or sell thrombin and thrombin-derived polypeptide products and procedures incorporating technologies developed by Dr. Darrell H. Carney of the U. T. Medical Branch - Galveston. Gal Tech will pay a running royalty of three and one-third percent (3.3%) of net sales plus one-half of royalties received by Gal Tech from sublicensees as well as certain fees and minimum royalties. In addition, Gal Tech will issue to the U. T. Board of Regents on behalf of the U. T. Medical Branch - Galveston and Dr. Carney two hundred thousand (200,000) shares each of the common stock of Gal Tech so that the U. T. Medical Branch - Galveston and Dr. Carney each will own twenty percent (20%) of the total shares issued to date. Dr. Carney will serve as a director of and scientific advisor and consultant to Gal Tech. Dr. Carney has agreed to waive any right that he may have in The University of Texas System's share of stock in Gal Tech.

PATENT LICENSE AGREEMENT

THIS Agreement is made between the Board of Regents (“Board”) of The University of Texas System (“System”), an agency of the State of Texas, whose address is 201 West 7th Street, Austin, Texas 78701, and Chrysalis **BioTechnology, Inc./DBA Gal Tech Wound Therapies**, a Texas corporation having a principal place of business located at **Sealy & Smith Professional Building, Suite 924, 200 University Boulevard, Galveston, Texas 77550** (“Licensee”).

RECITALS

A. WHEREAS, Board owns certain Patent Rights **and Technology** Bights related to Licensed Subject Matter, which were developed at The University of Texas Medical Branch (“University”), a component institution of the System;

B. WHEREAS, Board desires to have the Licensed Subject Matter developed and used for **the** benefit of Licensee, the inventor, Board, **and** the public as outlined in the Intellectual Property Policy promulgated by the Board;

C. WHEREAS., Licensee **is** a company which was formed to develop and commercially exploit the inventions of Licensed Subject Matter, and therefore, wishes to obtain **a** license from Board to practice Licensed Subject **Matter**;

D. WHEREAS, Licensee has represented to Board, to induce Board to enter into this Agreement, that Licensee shall commit itself to a thorough, vigorous, and diligent program of exploiting the Patent Rights granted hereunder,

E. WHEREAS, this Agreement is subject to and not effective until the content and University employee business participation with Licensee is presented to and approved by Board; **and**.

F. WHEREAS, Monsanto Company licensed its joint ownership in Patent Bights to Board on May 15, 1991, Exhibit 1.

NOW, THEREFORE, in consideration of the mutual covenants and premises herein contained the parties hereto agree as follows:

1. EFFECTIVE DATE

This Agreement shall be effective as of _____ (the “Effective Date”), subject to and contingent upon approval by Board.

2. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings indicated:

2.1 “Licensed Field” shall mean all fields of use.

2.2 “Licensed Product” shall mean **any** product, component, or material the manufacture, use or sale of which comprises the Licensed Subject Matter.

2.3 “Licensed Process” shall mean any process which is covered in whole or in part by an issued, unexpired claim or pending claim contained in the Patent Rights.

2.4 “Licensed Subject Matter” shall mean inventions and discoveries covered by Patent Rights or Technology Rights within Licensed Field.

2.5 “Licensed Territory” shall *mean the* entire world.

2.6 “Net Sales” shall mean the gross revenues received by Licensee (and its Sublicensees) from the Sale of Licensed Products and Licensed Processes less sales and/or use taxes actually paid, import and/or export duties actually paid, outbound transportation prepaid or allowed, and amounts allowed or credited due to returns (not to exceed the original billing or invoice amount).

2.7 “Patent Rights” shall mean any of Board’s rights in and to:

(a) the patents and patent applications described in Schedule A hereto (the “Existing Patent Rights”) and all patents anywhere in the world issuing thereon;

(b) all divisions, continuations, continuations-in-part, patents of addition, patents, substitutions, registrations, reissues, **reexaminations** or extensions of any kind with respect to any of the applications and patents described in (a) above which name Darrell H. **Carney**, Ph. D. as either sole or joint inventor and which relate to the manufacture, use or sale of thrombin derived polypeptides. From time to time during the term of this Agreement, upon request by either party, Licensee and Board shall promptly update Schedule A to include all patent applications and patents that are then within the- Patent Rights.

2.8 “Sale or Sold” shall mean the transfer or disposition of a Licensed Product for value to a party other than Licensee or a Subsidiary

2.9 “Subsidiary” shall mean any business entity more than fifty percent (50%) owned by Licensee, any business entity which owns more than fifty percent (50%) of Licensee, or any business entity that is more than **fifty** percent (50%) owned by a business entity that **owns** more than fifty percent (50%) of Licensee.

2.10 “Technology Rights” shall mean Board’s rights in any technical information, know-how, process, procedure, composition, method, formula, protocol, technique, **software**, design, drawing or data relating to Licensed Field and made or developed by Darrell H. Carney, Ph. D. or others working in his lab or under his supervision or direction, whether or not covered by Patent Rights but which is necessary for practicing the invention at any time covered by Patent Rights.

2.11 “Sublicensee” shall mean any third party to whom Licensee has granted a sublicense under the Patent Rights to make and sell Licensed Products.

2.12 “Product Development Funding” shall mean **funds** dedicated to and expended solely for development of a commercially viable Licensed Product.

3. WARRANTY; SUPERIOR-RIGHTS

3.1 Except for the rights, if any, of the Government of the United States, as set forth below, Board represents and warrants its belief that it is the owner of the entire right, title, **and** interest in and to Licensed Subject Matter, and that it has the sole right to grant licenses thereunder, and that it has not knowingly granted licenses thereunder to any other entity that would restrict rights granted hereunder except as stated herein.

3.2 Licensee understands that the Licensed Subject Matter may have been developed under a funding agreement with the Government of the United States of America and, if so, that the Government may have certain rights relative thereto. This Agreement is explicitly made subject, to the Government's rights under any such agreement and any applicable law or regulation.. To the extent that there is a conflict between any such agreement, applicable law or regulation and this Agreement, the terms of such Government agreement, applicable law or regulation shall prevail

4. LICENSE

4.1 Subject to the terms of the Monsanto Agreement of Exhibit 1 attached hereto and incorporated into this agreement for all purposes, Board hereby grants to Licensee a royalty-bearing, exclusive license under Licensed Subject Matter to manufacture, have manufactured, and/or sell Licensed Products within Licensed Territory for use within Licensed Field. This grant shall be subject to the payment by Licensee to Board of all consideration as provided in this Agreement, and shall be further subject to rights retained by Board to:

- a. Publish the general scientific findings from research related to Licensed Subject Matter; and
- b. Use any information contained in Licensed Subject Matter for research, patient care, teaching and other educationally-related purposes.

4.2 Licensee shall have the right to extend the license granted herein to any Subsidiary provided that such Subsidiary consents to be bound by this Agreement to the same extent as Licensee.

4.3 Licensee shall have the right to grant sublicenses consistent with this Agreement provided that Licensee shall be responsible for the operations of its Sublicensees relevant to this Agreement as if such operations were carried out by Licensee, including the payment of royalties whether or not paid to Licensee by a Sublicensee. Licensee further agrees to deliver to Board a true and correct copy of each sublicense granted by Licensee, and any modification or termination thereof, within thirty (30) days after execution, modification, or termination. Upon termination of this Agreement, at Board's option any and all existing sublicenses granted by Licensee shall be assigned to Board.

4.4 Licensee shall not receive from Sublicensees anything of value in lieu of cash payments in consideration for any sublicense under this Agreement without the express prior written permission of the Board.

5. DUE DILIGENCE

5.1 Board shall have the right at any time after **two** (2) years **from** the date of this Agreement, to terminate the exclusivity of the license granted herein in any national political jurisdiction within Licensed Territory if Licensee, within ninety (90) days **after** written notice. from Board as to such intended termination of exclusivity, **fails** to provide written evidence that it has commercialized or is actively

attempting to commercialize an invention licensed hereunder within such jurisdiction. Board agrees to negotiate in good faith with Licensee for adjusting terms under such a non-exclusive arrangement. Board shall have the right at any time after three (3) years from the date of this Agreement to terminate the license completely in any national political jurisdiction if Licensee, within ninety (90) days after written notice from Board of such intended termination, fails to provide written evidence that it has commercialized or is actively attempting to commercialize an invention licensed hereunder within such jurisdiction. Evidence provided by Licensee that it has an ongoing and active research, development, manufacturing, marketing or licensing program as appropriate, directed toward production and sale of Licensed Products within such jurisdiction shall be deemed satisfactory evidence.

5.2 In addition, the Board **shall** have the right to terminate the exclusivity of the license granted herein in Licensed Territory shall occur if Licensee, within ninety (90) days after written notice **from** Board as to such intended termination of exclusivity, fails to provide written evidence that it has met the following milestones:

Financial

(a) product Development Funding of \$750,000 raised and received within one (1) year of signing of this agreement;

(b) product Development Funding of **\$1,500,000** raised and received within **two** (2) years of signing of this agreement;

(c) product Development Funding of **\$3,000,000** raised and received or strategic partnerships in place to accommodate US and or Foreign clinical trials within three (3) years of signing this Agreement;

Research/Performance

(d) phase I toxicology testing of Licensed Subject Matter completed and stability testing initiated in an FDA approved facility within one (1) year of signing this agreement;

(e) submission of application to the FDA or other regulatory agency for the initiation of US or Foreign clinical trials (Investigational New Drug Application, Medical Device or Diagnosis submission under the 5 IO(k) regulations, etc.) within two (2) years of signing this Agreement;

(f) initiation of US or Foreign clinical trials for at least one (1) Licensed Product within three (3) years of signing this Agreement.

5.3 **The** Board shall have the right to terminate the license completely if Licensee within ninety (90) days **after** written notice from Board of such termination fails to provide written evidence that it has completed the corresponding milestone in Article 5.2.

6. PAYMENTS AND REPORTS

6.1 In consideration of rights granted by Board to Licensee under this Agreement, Licensee agrees to pay Board the following:

a. Non-refundable license documentation fee in the amount of \$2,000, which shall be due and payable when this Agreement is **executed** by Licensee;

b. License Maintenance Fees in the amount of \$5,000, which shall be due and payable on September I, 1996 and on September I of each year thereafter during the exclusive period

of this Agreement; provided, however, that Running Royalties subsequently due on Net Sales for each said year, if any, shall be creditable against the Maintenance Fee for said year;

c. Running Royalties in an amount equal to three and one third percent (3.33%) of Net Sales for Licensed Products and Licensed Processes used, leased, or sold by and/or for Licensee and/or its Sublicensees; provided, however, that three (3) years after the signing of this Agreement, Minimum Annual Running Royalties in the amount of \$20,000 will be due and payable to Board;

d. In addition to Running Royalties, **fifty** percent (50%) of any payments, including, but not limited to, Sublicense issue fees, received **from** Sublicensees in consideration for the Licensed Products and Licensed Processes;

e. As further consideration, Licensee agrees to fund University Licensed Subject Matter physiological mechanism research in the amount of \$100,000 per year for six (6) years with \$10,000 increases each year after the Effective Date (quarterly payments beginning January 1).

6.2 During the Term of this Agreement and for one **(1)** year thereafter, Licensee shall keep complete and accurate records of its and its Sublicensees' Sales and Net Sales of Licensed Products and Licensed Processes under the license granted in this Agreement in sufficient detail to enable the royalties payable hereunder to be determined, Licensee shall permit Board or its representatives, at Board's expense, to periodically examine its books, ledgers, and records during regular business hours for the purpose of and to the extent necessary to verify any report required under this Agreement. In the event that the amounts due to Board are determined to have been underpaid, Licensee shall pay the cost of such examination, and accrued interest at the exchange rate prevailing at the Chase Manhattan Bank **(N.A.)** on the last business day of the calendar quarterly reporting period to which such royalty payments relate.

6.3 Within thirty (30) days after March 31, June 30, September 30, and December 31, Licensee shall deliver to Board a true and accurate report, giving such particulars **of the** business conducted by Licensee and its Sublicensee(s), if any exist, during the preceding three (3) calendar months under this Agreement as are pertinent to an account for payments hereunder. Such report shall include at least (a) the quantities of Licensed Subject Matter that it has produced; (b) the total Sales; (c) the calculation of royalties thereon; and (d) the total royalties so computed and due Board. Simultaneously with the delivery of each such report, Licensee shall pay to Board the amount, if any, due for the period of such report. If no payments are due, it shall be so reported; however, Minimum Royalties will be due and payable with the September 30 report if not covered by Running Royalties during the preceding year.

6.4 Licensee shall deliver to Board with the March 31 and September 30 **financial** reports defined in Article 5.3 a written report as to Licensee's efforts and accomplishments during the preceding six months in commercializing Licensed Subject Matter in various parts of the Licensed Territory and its commercialization plans for the next six months.

6.5 All amounts payable hereunder by Licensee shall be payable in United States **funds** without deductions for taxes, assessments, fees, or charges of any kind. Checks shall be made payable to The University of Texas Medical Branch and mailed to The University of Texas Medical Branch at Galveston, Research Administrative Services, P.O. Box 200790, Houston, TX 77216-0790.

6.6 Licensee shall reimburse Board for all its out-of-pocket expenses thus far incurred in filing, prosecuting, enforcing and maintaining Patent Rights **exclusively** licensed hereunder within three (3) years of the Effective Date of this Agreement and shall pay **all** such **future** expenses so long as and in such countries as its license remains **exclusive**.

7. COMMON STOCK; EQUITY OWNERSHIP

7.1 In consideration of the rights granted to Licensee by Board in this Agreement, Licensee agrees that upon execution of this Agreement it shall issue Board two hundred thousand (200,000) fully paid, **non-**assessable shares of its founders stock, \$0.01 par value, which shares of stock shall equal twenty percent (20%) of all founders shares.

7.2 Board shall be entitled to "piggyback" registration rights on all Securities Act of 1933 registrations by the Licensee.

7.3 Board shall have the right to name directors on the board of directors of Licensee in proportion to the number of shares held by Board relative to the total number of issued shares, provided, that Board shall always have at least one seat on Licensee's board. Alternatively, Board shall have the right to receive notice of all meetings of the board of directors and to have a representative present at such meetings as an observer.

7.4 In addition, Licensee hereby grants Board a one (1) year option, exercisable in its sole discretion, to purchase up to an additional one million (**1,000,000**) shares to its common stock at a fixed purchase price of one dollar (\$1.00) per share upon the same general terms and conditions as then applicable to the other purchasers of such stock. Board shall have the option to purchase all of the shares, or a lesser amount, by providing sixty (60) days written notice to Licensee, which notice shall **specify** the number of shares which Board desires to purchase and the date of purchase.

8. TERM AND TERMINATION

8.1 The Term of this Agreement shall extend from the Effective Date to the **full** end of the **term** or terms for which Patent Rights have not expired and if only Technology Rights are licensed and no Patent Rights are applicable, for a term of **fifteen** (15) years.

8.2, This Agreement will earlier terminate:

- a. automatically if Licensee shall become bankrupt or insolvent and/or if the business of Licensee shall be placed in the hands of a receiver, assignee, or trustee, whether by voluntary act of Licensee or **otherwise**;
- b. upon ninety (90) days written notice if Licensee shall breach or default on any obligation under this License Agreement; provided, however, Licensee may avoid such termination if before the end of such period Licensee notifies Board that such breach has been cured and states the manner of such cure.
- c. under the provisions of Article 5 if invoked.

8.3 Upon termination of this Agreement for any cause, nothing herein shall be construed to release either party of any obligation matured prior to the effective date of such termination. Licensee may, after the effective date of such termination, sell all Licensed Products and parts **therefor** that it may have on hand at the date of termination, provided that it pays earned royalties thereon as provided in this Agreement.

8.4 Upon and effective as of the date of termination of this Agreement pursuant to Article 5 above, Licensee grants to Board a non-exclusive license **with** the right to sublicense others with respect to improvements made by Licensee in the Licensed Subject Matter.

8.5 Board's right to sublicense others hereunder shall be solely for purposes of permitting others to develop and commercialize the entire technology package.

9. INFRINGEMENT BY THIRD PARTIES

9.1 Licensee shall have the obligation of enforcing at its expense any patent exclusively licensed hereunder against infringement by third parties and shall be entitled to retain recovery from such enforcement. Licensee shall pay Board a royalty on any monetary recovery to the extent that such monetary recovery by Licensee is held to be damages or a reasonable royalty in lieu thereof. In the event that Licensee does not file suit against **a substantial** infringer of such patents within six (6) months of knowledge thereof, then Board shall have the right to enforce any patent licensed hereunder on behalf of itself and Licensee (Board retaining all recoveries from such enforcement).

9.2 In any suit or dispute involving an infringer, the parties **shall** cooperate fully, and upon the request and at the expense of the party bringing suit, the other party shall make available to the party bringing suit at reasonable times and under **appropriate** conditions all relevant personnel, records, papers, information, samples, specimens, and the like which are in its possession.

10. ASSIGNMENT

This Agreement may not be assigned by Licensee without the prior written consent of Board.

11. PATENT MARKING

Licensee agrees to mark permanently and legibly all products and documentation manufactured or sold by it under this Agreement with such patent notice as may be permitted or required under Title 35, United States Code.

12. INDEMNIFICATION

Licensee **shall** hold harmless and indemnify Board, System, University, its Regents, officers, employees and agents **from and against** any claims, demands, or causes of action whatsoever, including without limitation those arising **on** account of any injury or death of persons or damage to property caused by, or arising out of, or resulting from, the exercise or practice of the license granted hereunder by Licensee its Subsidiaries or their officers, employees, agents or representatives.

13. USE OF BOARD AND COMPONENTS NAME

Licensee shall not use the name of University, System, or Board without express written consent.

14. CONFIDENTIAL INFORMATION

14.1 Board and Licensee each agree that **all** information contained in documents marked "confidential" which are forwarded to one by the other shall be received in strict confidence, used only for the purposes of this Agreement, and not disclosed by the recipient party (except as required by law or court order), its agents or employees without the prior written consent of the other party, unless such information (a) was in the public domain at the time of disclosure, (b) later became part of the public domain through no act or omission of the recipient party, its employees, agents, successors or assigns, (c) was lawfully disclosed to the recipient party by a third party having the right to disclose it, (d) was already known by the

recipient party at the time of disclosure, (e) was independently developed or (f) is required to be disclosed to a government agency.

14.2 Each party's obligation of confidence hereunder shall be fulfilled by using at least the same degree of care with the other party's confidential information as it uses to protect its own confidential information. This obligation shall exist while this agreement is in force and for a period of three (3) years thereafter.

15: PATENTS AND INVENTIONS

15.1 If after consultation with Licensee it is agreed by Board and Licensee that a patent **application** should be filed for Licensed Subject Matter, Board will prepare and file appropriate patent applications, and Licensee **will** pay the cost of searching, preparing, filing prosecuting and maintaining same. if Licensee notifies Board that it does not intend to pay the cost of an application, or if Licensee does **not** respond or make an effort to agree with Board on the disposition of rights in the subject invention, then Board may file such application at its own expense and Licensee shall have no rights to such invention. Board shall provide Licensee with a copy of any patent application for which Licensee has paid the cost of filing, as well **as** copies of any documents received or filed during prosecution thereof.

16. GENERAL

16.1 This Agreement constitutes the entire and only agreement between the parties for Licensed Subject Matter and all other prior negotiations, representations, agreements, and understandings are superseded hereby. No agreements altering or **supplementing the** terms hereof may be made except by means of a written document signed by the duly authorized representatives of the parties.

16.2 Any notice required by this License Agreement shall be given by prepaid, first class, certified mail, return receipt requested, addressed in the case of Board to:

Board of Regents
The University of Texas System
201 West 7th Street
Austin, Texas 78701
ATTENTION: Office of General Counsel
FAX: (512) 499-4523
PHONE: (512) 499-4462

with a copy to:

Research Development Services
Technology Management **Office**
The University of Texas Medical Branch'
301 University Blvd., Route 0 114
Galveston, Texas 77545-0114
ATTENTION: Technology Management Office
FAX: (409) 772-1684
Phone: (409) 772-0567

or in the case of Licensee to:

Chrysalis BioTechnology, Inc./DBA
Gal Tech Wound Therapies
Sealy & Smith Professional Building, Suite 924
200 University Boulevard
Galveston, Texas 77550
ATTENTION: Director or President
FAX: (409) 747-0780
PHONE: (409) 747-0780

or such other addresses as may be given from time to time under the terms of this notice provision.

16.3 Licensee shall comply with all applicable federal, state and local laws and regulations in connection with its activities pursuant to this Agreement.

16.4 This License Agreement shall be construed and enforced in accordance with the laws of the United States of America and of the State of Texas.

16.5 Failure of Board to enforce a right under this Agreement shall not act as a waiver of that right or the ability to later assert that right relative to the particular situation involved.

16.6 Headings included- herein are for convenience only and shall not be used to construe this Agreement.

16.7 If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this Agreement.

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

By _____
Thomas G. Ricks
Vice Chancellor for Asset Management

Approved as to form:

By _____
Dudley R. Dobie, Jr.
Office of General Counsel

THE UNIVERSITY OF TEXAS
MEDICAL BRANCH

By Thomas N. James
Thomas N. James, M.D.
President

Approved as to content:

By Richard S. Moore 9/29/95
Richard S. Moore
Vice President for Business Affairs

CHRYSALIS BIOTECHNOLOGY, INC./DBA
GAL TECH WOUND THERAPIES

By Richard E. Warrington
Richard Warrington, Ph.D.
Regulatory Director and Acting CEO

SCHEDULE A

United States Patent Rights:

Case Number: **UTMB:043**

Title: "Thrombin Derived Polypeptides; Compositions and Methods for Use"

Issue Number: **5,352,664**

Issue Date: October 4, 1994

Inventor: Darrell H. Camey and Kevin C. Glenn

Case Number: UTMB: 136 (Divisional of **UTMB:043**)

Title: "Thrombin Derived Polypeptides; Compositions and Methods for Use"

Serial Number: **08/007,173**

Inventor: Darrell H. Camey and Kevin C. Glenn

Foreign Patent Rights:

Case Number: **UTMB:043**

Title: "Thrombin Derived Polypeptides, Compositions and Methods for Use"

Inventor: Darrell H. Camey and Kevin C. Glenn

Japanese Patent Application Number: **507053/1987**

Canadian Patent Application Number: 595,965

European Application: 87907652.9

Exhibit 1

AGREEMENT

THIS AGREEMENT effective as of the 15th day of May, 1991, between Monsanto Company, a corporation of the State of Delaware, having offices at **700** Chesterfield Village Parkway, St. **Louis**, Missouri ("**MONSANTO**") and the Board **of Regents** ("BOARD") of the University of Texas System ("SYSTEM"), an agency of the State of Texas, whose address **is** 201 **West** 7th Street, Austin, Texas 78701;

WHEREAS, the BOARD through work performed at the University **of** Texas Medical Branch ("UNIVERSITY"), a component institution **of** the University of Texas System and **MONSANTO** are joint owners of U.S. Patent Application Serial Number 925,201, filed October 31, 1986;

WHEREAS., the parties entered into a license Agreement effective the 1st day of April, 1989, and MONSANTO elected to discontinue paying the **costs** for foreign prosecution thereto on May 15, 1991;

WHEREAS, the parties desire to and have as a purpose of this Agreement to establish the terms and conditions under which **MONSANTO** will grant to UNIVERSITY certain **of** its rights under Licensed Patents (as hereinafter defined),

NOW, THEREFORE, the parties agree **as follows**:

Article 1 Definitions

1.1 "Licensed Patents", as used herein, shall mean pending U.S. Patent Application Serial Number 925,201, filed October 31, 1986, and all divisions, continuations, continuations-in-part, reissues, **reexaminations** thereof, and any corresponding Patents obtained in Austria, Belgium, Canada, France, Great Britain, Germany, Greece, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, Spain, Sweden, and Switzerland.

1.2 "Licensed Products", as used herein, shall mean any product or use of such product covered by one or more claims of Licensed Patents.

1.3 "Net Sales", as used herein, shall mean values actually received by the UNIVERSITY from the sale of Licensed Products to a third party and values received by the UNIVERSITY from its sublicensees from the sale of Licensed Products, less any transportation charges, customary and reasonable discounts and commissions, returns, sales or excise taxes and duties imposed on and paid by the seller with respect to such sale.

1.4 "Other Products", as used herein, shall mean only those products that, if sold by MONSANTO or **its** licensee, would not infringe the *claims* of Licensed Patents.

PRECEDENT APPLICATIONS

2.1 The **UNIVERSITY** agrees to pay the cost incurred after May 20, 1991 of securing and maintaining License Patents including attorney fees for the preparation and prosecution of the applications as well as filing, issuance and maintenance fees. UNIVERSITY may, in its sole discretion, pursue corresponding patents in Austria, Belgium, Canada, France, Great Britain, Germany, Greece, Italy, Japan, **Liechtenstein**, Luxembourg, Netherlands, Spain, **Sweden**, and Switzerland.

2.2 The UNIVERSITY shall *not* be required to prosecute any patent application beyond the point of final **rejection** by the assigned Primary Examiner **in** the United States Patent and Trademark Office or the equivalent stage of prosecution in a patent application in a foreign country. However, if the UNIVERSITY elects not to appeal a final rejection, it shall promptly **so** inform MONSANTO in time to allow MONSANTO to appeal the rejection if it so desires.

ARTICLE 3 LICENSE

3.1 Subject to the terms of this Agreement, **KONSANTO** agrees to **grant** and hereby grants the UNIVERSITY an exclusive, royalty-bearing license under Licensed Patents to make, use and sell Licensed Products, including the right to grant sublicenses, subject to KONSANTO retaining a right to practice the Licensed Patents **for** its internal operations including research and production and sale of Other **Products**.

ARTICLE 4 PAYMENT AND COVENANTS

4.1 In consideration of the license of Article 3, the UNIVERSITY shall pay to KONSANTO a royalty of ten percent (10%) of Net Sales.

4.2 All amounts payable hereunder by UNIVERSITY shall be payable in United States dollars. Checks shall be made **payable** to the Monsanto Company.

ARTICLE 5 REPORTS

5.1 Beginning with the first sale of Licensed Products and within forty-five **(45)** days following the last day of the months of June and December of each calendar year until termination of this Agreement the UNIVERSITY shall submit to **KONSANTO** a written report setting forth the Net Sales of Licensed Products sold by the UNIVERSITY and value received from all sublicenses of the Licensed Patents and the amount of royalty owed to KONSANTO for the immediately preceding semiannual period. With each report the UNIVERSITY shall pay KONSANTO the amount of royalty **shown** to be due.

5.2 The UNIVERSITY shall keep such detailed records as may be necessary to determine the payments due under 5.1. At the request of **MONSANTO**, the **UNIVERSITY** shall permit an independent public accountant

selected by MONSANTO (**unless** one to which the **UNIVERSITY** has some reasonable objection) to have access during ordinary business hours to such records as may be **necessary** to determine for a period up to two **(2)** years prior to the **time** of such requests:

- a) the correctness of any report and/or payment made under **this** Agreement and/or,
- b) information as to the sum payable for such period in case of the **UNIVERSITY'S failure** to render statements of payment as required by Article 5.1 of **this** Agreement.

5.3 Any accountant appointed pursuant to paragraph 5.2 shall not disclose to MONSANTO any information relating to the business of the **UNIVERSITY** except that which should **have** been contained **in** a prior report pursuant to **this** Agreement.

ARTICLE 6 TERM AND TERMINATION

6.1. Unless earlier terminated as **provided** herein, this Agreement shall **terminate** on the expiration date of the last patent within **Licensed Patents**'.

6.2 If either party **shall** be in default under or shall fail to comply with **the terms** of this Agreement and such default or failure to comply **is** not cured within sixty (60) days after **receipt** of **written** notice thereof, the other party shall have the right to terminate **this** Agreement and the license granted hereby by written notice to that effect to be effective sixty (60) days after receipt of said notice.

6.3 The **UNIVERSITY** may, upon three (3) months written notice to **MONSANTO**, terminate this Agreement for any reason whatsoever.

6.4 Upon termination of this Agreement for any reason, the license granted to the **UNIVERSITY** hereunder shall terminate, however, nothing herein shall be construed to release either party from any obligation which matured prior to the effective date of such termination and the UNIVERSITY'S obligations pursuant to this Agreement shall remain in full force and effect until **all** payments required to be made by the. UNIVERSITY to MONSANTO have been made.

ARTICLE 7 WARRANTY: DISCLAIMER OF WARRANTY

7.1 MONSANTO represents and warrants that it has the right to make conveyances and-grants in accordance with **the** Articles herein except for the rights,.if any, of the Government of the United States.

7.2 Except as specified: in. **paragraph.** 7.1, **MONSANTO** makes no representation or warranties, either express or implied, with respect to the Licensed Patent(s) and specifically disclaims any implied warranties of merchantability **and fitness** for a particular purpose.

7.3' Nothing in this Agreement shall **be** construed as:

- a)** a warranty or **representation by MONSANTO** as to the validity of the **Licensed** Patents;
- b)** a warranty or representation by **MONSANTO** that anything made, used, **sold or otherwise** disposed of under the license granted **in** this Agreement does not **or** will not infringe the patents, copyrights, trademarks, registered design or other intellectual property or contractual rights of third parties:
- c)** an obligation by MONSANTO to bring or prosecute actions or suits against third parties for

infringement of patents, copyrights, trademarks, registered design or other intellectual property or contractual rights; or

- d) the conferring by MONSANTO of rights to use in advertising publicity or otherwise any trademark, **service mark or tradename** of MONSANTO except in accordance with the express terms **of** this Agreement;

ARTICLE 8 PATENT MARKING

8.1 The UNIVERSITY and/or its **sublicensees** agree to mark permanently and legibly all products and documentation manufactured **or** sold by it under this Agreement with such patent notice as may be **permitted or** required under Title 35, United States **Code**.

ARTICLE 9 CONFIDENTIAL INFORMATION

9.1 UNIVERSITY and MONSANTO each **agree** that all **information** contained in document&marked "confidential" **which** are forwarded to one by the other shall **be** received in strict confidence, used only for the purposes of this Agreement, and not disclosed by thr. recipient party (except as required by **law** or court order), it's agent or employees without the prior written consent of the other party, unless such information:

- a) was in the public domain **at** the time of disclosure;
- b) later becomes part of the public domain through no act or omission of the recipient party. it's employees, agents, successor or assignee;
- c) is lawfully disclosed to the recipient party by third party having the right to disclose it;

- d) was already known by the recipient party at the time of disclosure;
- e) is independently developed; or
- f) is required to be submitted to a government agency pursuant to any pre-existing obligation.

9.2 Each-party's obligation **of** confidence hereunder shall be fulfilled by using at **least** the same **degree** of care with the other-party's confidential information **as** it uses to protect its own confidential information. This obligation shall exist while this Agreement is in force and for a period of three **(3) years thereafter**.

ARTICLE 10 GENERAL

10.1 Nothing contained herein shall be deemed or construed to create between the parties a partnership or joint venture. The **UNIVERSITY** shall not have **the** authority to **act** on behalf of MONSANTO to commit MONSANTO in any matter or cause whatsoever or to use **MONSANTO'S** name in any way not specifically authorized in this Agreement. Neither party shall be liable **for** any act, omission, representation, obligation *or* debt of the other party, even if informed of such act, omission, representation, obligation or debt.

10.2 It is agreed that no waiver by either party hereto of any breach or default **of any** of the covenants or requirements herein set forth shall be deemed a waiver **as** to any subsequent and similar breach or default.

10.3 In the event that any part, section, paragraph or subparagraph of this Agreement shall be held to be indefinite, invalid, illegal or otherwise void or unenforceable, the entire Agreement shall not fail on **account** thereof, and the balance of the Agreement shall continue in full force and effect.

10.4 The **UNIVERSITY** shall comply with all applicable **federal**, state and local laws and regulations in connection with its activities pursuant to this Agreement.

10.5 THIS AGREEMENT SHALL BE CONSTRUED, INTERPRETED AND GOVERNED BY THE **LAWS** OF THE STATE OF TEXAS. ANY CONTROVERSIES INVOLVING PATENTS SHALL BE GOVERNED BY **THE** LAWS OF THE COUNTRY IN WHICH **THE** PATENT IN CONTROVERSY ISSUED.

10.6 Any notice **and** other communications required or permitted under this Agreement shall be deemed to be properly given when in writing and sent by air **mail** addressed to the other party at the address set forth below:

UNIVERSITY: The Office of Sponsored Programs-Academic
The University of Texas **Medical** Branch
301 University Blvd
Galveston, Texas **77550**

Attn: Director

MONSANTO: Monsanto Company
800 North Lindbergh Blvd.
St.. Louis, **Missouri** 63198

Attn: **MCR** . Group Patent Counsel

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

Attn: System Intellectual Property Office

10.7 This Agreement merges and supersedes all previous agreements and understandings, whether or not written, respecting the same subject manner.

IN WITNESS WHEREOF, the parties hereto have caused **this** Agreement to be executed and delivered as of the date first shown above.

MONSANTO COMPANY

By



P. Needleman
Corporate Vice President and Chief
Scientist

Date

5/15/92

THE UNIVERSITY OF TEXAS MEDICAL BRANCH

By



Thomas N. James, **M.D.**, President

Date

6-5-92

BOARD OF REGENTS OF THE
UNIVERSITY OF TEXAS SYSTEM

BY



Thomas G. Ricks
Acting Vice **Chancellor**
for Asset Management

Date

6-24-92

Approved as to Form:

THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF GENERAL COUNSEL

By


Georgia Harper
Attorney

RECONVENE.--At 2:20 p.m., the Board reconvened as a committee of the whole to consider those items remaining on the agenda.

ITEMS FOR THE RECORD

1. U. T. Board of Regents: Appointment of Regent Lowell H. Lebermann, Jr. to Replace Regent Thomas O. Hicks as Regental Representative to the Texas Growth Fund Effective September 18, 1995.--Chairman Rapoport reported for the record the appointment of Regent Lowell H. Lebermann, Jr. as the Regental representative to the Texas Growth Fund effective September 18, 1995, to replace Regent Thomas O. Hicks. This appointment is at Regent Hicks' request and supersedes the original appointment as reported in Executive Committee Letter 95-12 dated March 21, 1995.

2. U. T. System: Report on Status of Degree Programs and Academic Organization Requests Approved by the U. T. Board of Regents and Submitted to the Texas Higher Education Coordinating Board for the Period September 1, 1994 Through August 31, 1995.--Following is a report for the record on the status of degree programs and academic organization requests within The University of Texas System which have been approved by the U. T. Board of Regents for submission to the Texas Higher Education Coordinating Board. Included are items which have been acted upon by the Coordinating Board since September 1, 1994, were still pending before the Coordinating Board as of August 31, 1995, or have been withdrawn temporarily from Coordinating Board consideration since September 1, 1994. Four regular Coordinating Board meetings have occurred since the last report. Full approval has been given for 21 programs and administrative change requests and 19 requests are now pending or withdrawn.
 - a. Degree Programs and Academic Administrative Changes Approved by the Coordinating Board for Implementation
 - U. T. Arlington
 - M.S. in Management of Technology
 - Master of Software Engineering

 - U. T. Austin
 - M.S. in the Commercialization of Science and Technology (Executive Format)
 - M.A. and Ph.D. in Neuroscience
 - Ph.D. in Architecture
 - Ph.D. in Community and Regional Planning

 - U. T. Brownsville
 - B.S. in Nursing

U. T. El Paso

Ph.D. in Environmental Science and Engineering

U. T. Pan American

Reorganization of Academic Administrative Structure
M.S. in Social Work

U. T. San Antonio

Divide the Division of Mathematics, Computer
Science, and Statistics into the Division of
Mathematics and Statistics and the Division of
Computer Science
Master of Architecture
Ph.D. in Computer Science

U. T. Tyler

Divide the Department of Mathematics and Computer
Science in the School of Sciences and
Mathematics into the Department of Computer
Science and the Department of Mathematics
Add a Nursing Program Extension in Palestine, Texas

U. T. Southwestern Medical Center - Dallas

Establish Urology Department

U. T. Medical Branch - Galveston

Establish Orthopaedic Surgery Department

U. T. Health Science Center - Houston

Administrative Reorganization of the Dental School
D.Sc. in Nursing

U. T. Health Science Center - San Antonio

B.S. and M.S. in Dental Hygiene
B.S. in Dental Laboratory Sciences

b. Requests Approved by the U. T. Board of Regents and
Pending with the Coordinating Board

U. T. Austin

Ph.D. in Operations Research and Industrial
Engineering

U. T. Brownsville

B.A. in Chemistry
B.A. in Physics
B.S. in Computer Science
B.S. in Engineering Technology
B.S. in Health Promotion

U. T. Dallas

B.S. in Neuroscience

U. T. El Paso

M.S. in Health Science
M.S. in Kinesiology and Sports Studies
Ed.D. in Educational Leadership and Administration

U. T. Permian Basin

M.S. in Criminal Justice Administration

U. T. Tyler

B.S. in Computer Information Systems
M.A. in Political Science

U. T. Medical Branch - Galveston

Ph.D. in Nursing

U. T. Health Science Center - San Antonio

M.S. in Clinical Laboratory

U. T. Austin Cooperative with U. T. Pan American

Ed.D. Educational Administration, Step II

U. T. Pan American Cooperative with U. T. Health
Science Center - San Antonio

B.S. in Occupational Therapy

c. Items Approved by the U. T. Board of Regents, Sent
to the Coordinating Board, and Withdrawn

U. T. Arlington

Ph.D. in Nursing (formerly Nursing Administration)

U. T. Southwestern Medical Center - Dallas and
U. T. Health Science Center - Houston

Master of Public Health Satellite Program
(deferred; not funded by 74th Texas
Legislature)

3. U. T. System: Report on Status of Administratively Approved Academic Program Changes for the Period September 1, 1994 Through August 31, 1995.--In accordance with Regentally approved guidelines, the appropriate Executive Vice Chancellor is authorized to forward certain academic program changes to the Texas Higher Education Coordinating Board for approval at the staff level, subject to periodic reporting to the U. T. Board of Regents for the record. These changes, considered to be "nonsubstantive" according to the Coordinating Board's terminology, must be consistent with institutional missions approved by the U. T. Board of Regents and the Coordinating Board.

Set forth below is a report for the record of eight such nonsubstantive approvals granted by the staff of the Coordinating Board for seven of The University of Texas System general academic and health component institutions for the period September 1, 1994 through August 31, 1995:

U. T. Arlington (1 item)

Changed the name of the Department of Civil Engineering to the Department of Civil and Environmental Engineering

U. T. Austin (1 item)

Added the M.S. in Applied Physics in addition to the existing M.A. in Physics

U. T. Dallas (1 item)

Changed the B.S. in Business Administration - Accounting to a B.S. in Accounting

U. T. El Paso (1 item)

Dropped the existing M.S. in Engineering with a concentration in Environmental Engineering and added the M.S. and M. Eng. in Environmental Engineering

U. T. Permian Basin (1 item)

Changed the B.S. and M.S. in Life Sciences to B.S. and M.S. in Biology

U. T. Tyler (2 items)

- a. Changed the Bachelor of Fine Arts in Music to a Bachelor of Music degree
- b. Changed the M.S. in Psychology to M.S. in Clinical Psychology and added the M.A. in Counseling Psychology and M.A. in School Counseling

U. T. Health Science Center - Houston (1 item)

Established the Ophthalmology and Visual Sciences Department

4. U. T. System: Report on Role and Mission Statements and Tables of Programs for Health Institutions.--The Office of Health Affairs reported for the record on Pages 236 - 256 The University of Texas System health institutions' Role and Mission Statements and Tables of Programs as approved by the Texas Higher Education Coordinating Board in October 1994. This report fulfills a requirement from the Minutes of the August 1994 meeting of the U. T. Board of Regents which approved a consolidated Table of Programs and component Mission Statements consistent with the respective component strategic plans.

Mission Statement
The University of Texas Southwestern Medical Center at Dallas

The University of Texas Southwestern Medical Center at Dallas is a component institution of The University of Texas System and is committed to pursuing high standards of achievement in instruction, research, and clinical activities. Since its inception in 1943, UT Southwestern has evolved as one of the leading biomedical institutions in the country and its programs are designed and implemented with the intent to sustain this progress in the future.

As an academic health science center, the central mission of the institution is to educate health professionals whose lifelong career objectives will be to provide the best possible care, apply the most appropriate treatment modalities, and continue to seek information fundamental to the treatment and prevention of disease. Within an environment of interdisciplinary activity and academic freedom at Southwestern, students receive training from faculty scholars who have in-depth expertise in the many specialties of health care and the biomedical sciences. Faculty members also engage in research and patient care so that they can generate new knowledge in the fight against disease and maintain their clinical skills while serving the people of Texas to the best of their ability. Research findings are made available directly to students and indirectly to the general public as practicing professionals adopt new treatment modalities. The focus of the faculty, students, and administration at The University of Texas Southwestern Medical Center at Dallas will remain on providing exemplary educational programs, creating new knowledge, delivering quality medical care, maintaining the highest ethical standards, advancing the scientific basis of medical practice, and demonstrating concern and compassion for all people. Every aspect of the university's operation will be conducted in as cost-effective a manner as possible.

The institution consists of the Southwestern Medical School, the Southwestern Graduate School of Biomedical Sciences, and the Southwestern Allied Health Sciences School and offers degrees and programs with subject matter limited to health-related fields.

The central purpose of The University of Texas Southwestern Medical School at Dallas is to produce physicians who will be inspired to maintain lifelong medical scholarship and who will apply the knowledge gained in a responsible and humanistic manner to the care of patients. The Southwestern Medical School has assumed responsibility for the continuum of medical education. The institution offers instructional programs not only in undergraduate medical education leading to the M.D. degree, but also graduate training in the form of residency positions and fellowships as well as continuing education for practicing physicians and medical scientists. An important focus of the educational effort is training primary care physicians and preparing doctors who will practice in underserved areas of Texas. Another instructional role of Southwestern Medical School faculty members is that of fully preparing those medical students who seek a career in academic medicine and research, including the opportunity to earn both the M.D. and Ph.D. degrees simultaneously.

UTSMC-0. Mission Statement
Page 2 .

The Southwestern Graduate School of Biomedical Sciences provides well qualified individuals seeking an M.A., M.S., or Ph.D. degree with the opportunity and the encouragement to investigate rigorously and be creative in solving significant problems in the biological, physical, and behavioral sciences. In addition to acquiring information in their area of research expertise, graduate students at the Southwestern Medical Center are encouraged to develop and test new ideas in the classroom and to communicate their ideas to others within the research-oriented medical community. Although enrolled in a specific program the students are not restricted to courses in their major field of study. Exposure to a wide variety of academic disciplines is necessary to prepare each individual for the rapidly changing emphasis in the biomedical sciences. Therefore, graduate students at UT Southwestern gain a wide perspective of contemporary biomedical science through interdisciplinary courses, seminars and informal discussions involving scholastic interaction with students and faculty from other educational programs within the University.

The educational programs of the Southwestern Allied Health Sciences School have been established to educate individuals at the baccalaureate level and above for those professions which support the health care delivery team concept. The School offers eight baccalaureate degree programs, two post-baccalaureate courses of study, a certificate program and graduate programs in cooperation with the Southwestern Graduate School of Biomedical Sciences. As an integral part of Southwestern Medical Center, the School works cooperatively in education, research, and service contexts. It prepares allied health professionals of the highest quality and competency to help meet health care needs of the people of Texas. Through research and scholarly pursuits related to health care, it advances scientific knowledge and practices of the allied health profession. It offers consultation, technical assistance, and professional services to meet education and health care needs of the community. In addition, it contributes to the continued growth and development of allied health professions, including reduction of barriers to career advancement through pathways to graduate or post-graduate education. The School views its community obligations as being important and therefore works actively to publicize career opportunities and respond in an appropriate manner to the requirements of health care institutions, agencies, and service providers in the area.

TABLE OF PROGRAMS

INSTITUTION: **The University of Texas Southwestern Medical Center at Dallas**

APB: January **24, 1986**
 APB: **October 26, 1990**
 REV: *September 14, 1994*

<u>Academic Disciplines</u>	<u>Categories</u>	<u>Pre-Bacc</u>	<u>Bacc</u>	<u>Mast</u>	<u>Doct</u>	<u>Prof</u>
EDUCATION	13.		3A	3B		
ENGINEERING	14.			3C	3C	
HOME ECONOMICS	19.		3D			
BIOLOGICAL SCIENCES/LIFE SCIENCES	26.			3E	3E	
MULTI/INTERDISCIPLINARY STUDIES	30.			3F	3F	
PSYCHOLOGY	42.			3G	3G	
PROTECTIVE SERVICES	43.			3H		
HEALTH PROFESSIONS & RELATED SCIENCES	51.					
Communication Disorders Sciences & Services	51.02					
Community Health Services	51.03		1			
Dentistry (DDS & DMD)	51.04					
Dental Clinical Sciences/Graduate Dentistry (MS PhD)	51.05					
Dental Services	51.06					
Health & Administrative Services	51.07		1			
Health & Medical Assistants	51.08		1			
Health & Medical Diagnostic & Treatment Services	51.09	3I	1			
Health & Medical Laboratory Technologies/Technicians	51.10		1			
Health & Medical Preparatory Programs	51.11					
Medicine (MD)	51.12					1
Medical Basic Sciences	51.13			2	2	
Medical Clinical Sciences (MS, PhD)	51.14					
Mental Health Services	51.15					
N u r s i n g	51.16					
Osteopathic Medicine (OD)	51.19					
Pharmacy	51.20					
Public Health	51.22					
Rehabilitation/Therapeutic Services	51.23		1	1		
Veterinary Medicine DMV)	51.24					
veterinary Clinical Sciences (MS, PhD)	51.25					
Miscellaneous Health Sciences & Allied Health Services	51.27			1		
Dental Residency Programs	51.28					
Medical Residency Programs	51.29					
Veterinary Residency Programs	51.30					
Miscellaneous Health Professions & Related Sciences	51.99					

FOOTNOTES

INSTITUTION: The University of Texas Southwestern Medical Center at Dallas

APB: January 24, 1986
APB: October 26, 1990
REV: September 12, 1994

[Footnote references identify Texas CIP code names and code numbers rather than institutional program **names.**]

- A: Higher Education Teaching (13.1299.10) and Health Occupations Teacher Education (13.1327) only
- B: Educational/Instructional Media Design (13.0501) **only**
- C: Biomedical **Engineering (14.0501.20) only**
- D: Dietetics/Human **Nutritional Services (19.0503) only**
- E: **BIOCHEMISTRY & BIOPHYSICS (26.02), CELL & MOLECULAR BIOLOGY (26.04), MICROBIOLOGY & BACTERIOLOGY (26.05), Neuroscience (26.0608), Radiation Biology/Radiobiology (26.0611), Genetics, Plant & Animal (26.0613), Biological Immunology (26.0618), and Physiology, Human and Animal (26.0706) only**
- F: **Imaging Science (30.9999.09) only**
- G: Clinical Psychology (42.0201) **only**
- H: Forensic **Technology/Technician (43.0106) only**
- I: Emergency Medical Technology/Technician (51.0904)

Mission Statement
The University of Texas Medical Branch at Galveston

UTMB enjoys a unique position among the health science centers in the State of Texas in that it operates, under a single administration, its academic and patient care programs and facilities. This unique position facilitates the integration of UTMB's education, research and patient care programs and thus provides a strong, synergistic environment as UTMB becomes that rare institution known for its consistent strength and commitment to excellence. UTMB will take advantage of this synergistic environment to accomplish its mission:

The mission of The University of Texas Medical Branch is to provide scholarly teaching, innovative scientific investigation, and state-of-the-art patient care.

UTMB must educate Texas' most talented youth who have chosen to become physicians, physician specialists, nurse, biomedical scientists and allied health professionals to meet the health care needs of the citizens of Texas. This includes a commitment to solving the need for primary care in medically under-served regions of this state. Some of these individuals also must be trained to be effective teachers of the basics of health care sciences.

UTMB must discover and disseminate new scientific knowledge through high quality research programs to establish UTMB clearly as one of the outstanding academic health science centers in the nation. Health policy and health care outcomes research are integral parts of this endeavor.

UTMB must lead in the discovery of new approaches to the prevention and treatment of disease and in the application of this new knowledge. This effort requires superior patient care programs including rural primary care in each of its clinical departments, which will, in turn, nurture and support scholarly activities that underlie and nurture them

UTMB must, in its pursuit of scientific knowledge, education of students and provision of high quality patient care, also inform the citizens of Texas and society at large of matters that affect their health.

TABLE OF PROGRAMS

INSTITUTION: **The** University of Texas Medical **Branch** at Galvestoo

APB: January 24, 1986
 APB: October 26, 1990
 Rev: September 14, 1994

<u>Academic Disciplines</u>	<u>Categories</u>	<u>Pre-Bacc</u>	<u>Bacc</u>	<u>Mast</u>	<u>Doct</u>	<u>Prof</u>
EDUCATION	13.					
ENGINEERING	14.					
HOME ECONOMICS	19.					
BIOLOGICAL SCIENCES/LIFE SCIENCE	26.			3A	3B	
MULTI/INTERDISCIPLINARY STUDIES	30.			3C		
PSYCHOLOGY	42.					
HEALTH PROFESSIONS & RELATED SCIENCES	51.					
Communication Disorders Sciences & Services	51.02					
Community Health Services	51.03			1		
Dentistry (DDS & DMD)	51.04					
Dental Clinical Sciences/Grad Dentistry (MS PhD)	51.05					
Dental Services	51.06					
Health & Administrative Services	51.07			2D		
Health & Medical Assistants	51.08					
Health & Medical Diagnostic & Treatment Services	51.09					
Health & Medical Laboratory Technologies/Technicians	51.10					
Health & Medical Preparatory Programs	51.11					
Medicine (MD)	51.12			1	1	1
Medical Basic Sciences	51.13			2	2	
Medical Clinical Sciences (MS, PhD)	51.14					
Mental Health Services	51.15					
Nursing	51.16		1	1	2	
Osteopathic Medicine (OD)	51.19					
Pharmacy	51.20					
Public Health	51.22					
Rehabilitation/Therapeutic Services	51.23		1	1	2E	
Veterinary Medicine (DMV)	51.24					
Veterinary Clinical Sciences (MS, PhD)	51.25					
Miscellaneous Health Sciences & Allied Health Services	51.27					
Dental Residency Programs	51.28					
Medical Residency Programs	51.29			1	1	
Veterinary Residency Programs	5130					
Health Professions & Related Sciences, Other	51.99			3F		

FOOTNOTES

INSTITUTION: The University of Texas Medical Branch at Galveston

APB: **January 24, 1986**

APB: **October 26, 1990**

Rev: *September 14, 1994*

[Footnote references **identify** Texas CIP code names **and** code numbers rather **than institutional** program names.]

- A: **BIOCHEMISTRY & BIOPHYSICS (26.02), CELL & MOLECULAR BIOLOGY (26.04), MICROBIOLOGY/BACTERIOLOGY (26.05), Anatomy (26.0601.00), Genetics, Human & Animal (26.0613.10), Pathology, Human & Animal (26.0704.00), and Pharmacology, Human & Animal (26.070500) only**
- B: **BIOCHEMISTRY & BIOPHYSICS (26.02), CELL & MOLECULAR BIOLOGY (26.04), MICROBIOLOGY/BACTERIOLOGY (26.05), Anatomy (26.0601.00), Neuroscience (26.0608.00), Genetics, Human & Animal (26.0613.10), Pathology, Human & Animal (26.0704.00), and Pharmacology, Human & Animal (26.0705.00) only**
- C: **Biological & Physical Sciences (30.0101.00) only**
- D: **Health Systems/Health Services Administration (51.0701), Medical Records Administration (51.0706) only**
- E: **Rehabilitation Science, General (51.2399.10) only**
- F: **Allied Health Sciences, General (51.9999.01) only**

Mission Statement
The University of Texas Health Science Center at Houston

The University of Texas Health Science Center at Houston (UTHSC-H) is a component of The University of Texas System and, as such, is committed to the pursuit of high standards of achievement in instruction, student performance, clinical service, research, and scholarly accomplishment.

As an academic health science center, the institution is one in which undergraduate, graduate and post-graduate students are educated broadly in the sciences of health and disease and are prepared for health-related careers in the provision of human services, and in teaching and research. Within an environment of academic freedom, students learn from faculty scholars who have in-depth expertise in the various specialties of health care and the biomedical sciences. Such faculty, with the assistance of their students and trainees, engage in research both to extend human knowledge related to health and to develop and maintain their own scholarly and professional expertise.

The comprehensiveness of the UTHSC-H, including the presence of six major health-related schools--medicine, dentistry, public health, nursing, allied health, and biomedical science--provides many avenues for collaborative endeavors. The School of Public Health, the only school of its kind in the State of Texas, acknowledges and accepts its unique responsibility to reach throughout the state to prepare individuals for the challenges of this expanding field. Two satellite programs are already in place with others planned for the future to assist in meeting the increasing demand for public health professionals.

In addition to the six schools encompassing the major health science disciplines, the other unit in the UTHSC-H organization is the Harris County Psychiatric Center (HCPC). HCPC is committed to advancement in mental health education through clinical, research, and educational excellence.

Collectively, these units respond to the health care manpower needs of the citizens of Texas, the City of Houston, and Harris and its surrounding counties by developing creative models for the training of health professionals, particularly emphasizing interdisciplinary educational models, and addressing the growing demand for primary care health professionals.

Together, faculty and students engage in patient care as an essential part of the teaching and learning experience. These professionals provide exemplary health care services to directly benefit the individual recipient and to serve as models which other providers will emulate. The clinical aspects of research are also conducted in conjunction with patient care.

The University of Texas Health Science Center at Houston considers itself a member of a large learning community and works to contribute to and draw from the intellectual pursuit of the other institutions within the Texas Medical Center, and within the greater Houston area. Also, to benefit this local community and the entire State of Texas, the institution offers a program of continuing education to assist practicing health professionals in utilizing the latest findings of research from the worldwide community of scholars in clinical and biomedical fields. As a result of participation in

UTHSC-H, Mission Statement

Page 2

these professional enhancement programs, practitioners adopt new modalities for the treatment and prevention of disease.

The institution consists of the following units which are listed by date of establishment:

- 1: **Dental Branch (established 1905; joined UT 1943)***
2. **Graduate School of Biomedical Sciences (1963)***
3. **School of Public Health (1967)***
4. **Medical School (1970)***
5. **School of Nursing (1972)***
6. **School of Allied Health Sciences (1973)***
7. **Harris County Psychiatric Center (established 1981; joined UT 1989)**

* The units included in the above list offer degrees and programs with subjects limited to health related fields.

TABLE OF PROGRAMS

INSTITUTION: **The University of Texas Health Science Center at Houston**

APB: January 24, 1986
 APB: October 26, 1990
 REV: September 14, 1994

<u>Academic Disciplines</u>	<u>Categories</u>	<u>Pre-Bacc</u>	<u>Bacc</u>	<u>Mast</u>	<u>Doct</u>	<u>Prof</u>
CONSERVATION & RNWABLE NATURAL RESRCS	03.			3A	3A	
EDUCATION	13.		3B	2B		
HOME ECONOMICS	19.		3C	2C		
LIBERAL ARTS & SCIS, GNRL STDS & HUMANITIES	24.				3D	
BIOLOGICAL SCIENCES/LIFE SCIENCES	26.			3E	3E	
PUBLIC ADMINISTRATION & SERVICES	44.				3F	
HEALTH PROFESSIONS & RELATED SCIENCES	51.					
Communication Disorders Sciences & Services	51.02			2		
Community Health Services	51.03			1		
Dentistry (DDS & DMD)	51.04					1
Dental Clinical Sciences/Graduate Dentistry (MS PhD)	51.05			1		
Dental Services	51.06	3G				
Health & Administrative Services	51.07			1		
Health & Medical Assistants	51.08					
Health & Medical Diagnostic & Treatment Services	51.09	2H				
Health & Medical Laboratory Technologies/Technicians	51.10					
Health & Medical Preparatory Programs	51.11					
Medicine (MD)	51.12					
Medical Basic Sciences	51.13			1	1	
Medical Clinical Sciences (MS, PhD)	51.14					
Mental Health Services	51.15					
Nursing	51.16		1	1	2	
Osteopathic Medicine (OD)	51.19					
Pharmacy	51.20			3I	3I	
Public Health	51.22			1	1	
Rehabilitation/Therapeutic Services	51.23					
Veterinary Medicine (DMV)	51.24					
Veterinary Clinical Sciences (MS, PhD)	51.25					
Miscellaneous Health Sciences & Allied Health Services	51.27					
Dental Residency Programs	51.28					
Medical Residency Programs	51.29					
Veterinary Residency Programs	51.30					
Miscellaneous Health Professions & Related Sciences	51.99					

FOOTNOTES

INSTITUTION: The **University of Texas** Health Science at Houston

APB: January **24, 1986**
APB: **October 26, 1990**
REV: September 14, 1994

[Footnote **references** identify Texas CIP **code** names and **code** numbers rather than institutional **program names.**]

- A: Environmental Science (03.0102.10) only
- B: Health Occupations Teacher **Education (13.1327), Biomedical Communications (13.1327) only**
- C: Dietetics/Human Nutritional Services (19.0503), **Nutrition and Dietetics (19.0503) only**
- D: Behavioral Science (**24.0103.20**) only
- E: **BIOCHEMISTRY & BIOPHYSICS (26.02), CELL & MOLECULAR BIOLOGY (26.04), Ecology (26.0603), Neuroscience (26.0608), Nutritional Sciences (26.0609), Radiation Biology/Radiobiology (26.0611), Toxicology (26.0612), Genetics, Human & Animal (26.0613.10), Genetics, Molecular (26.0613.20), Biometrics & Biostatistics (26.0614.50), Biological Immunology (26.0618), and Virology (26.0619) only**
- F: Public Policy Analysis (44.0501) only
- G: Dental Hygienist (51.0602) only
- H: Emergency Medical Technology/Technician (51.0904) **only**
- I: Medical Pharmacology (**51.2003.10**) **only**

Mission Statement
The University of Texas Health Science Center at San Antonio

The University of Texas Health Science Center at San Antonio is a component institution of The University of Texas System and, as such, is committed to pursue the highest standards of achievement in instruction, student performance, research and scholarly accomplishment, patient care, and service. The Health Science Center has established itself as a major research institution and, through its biomedical research programs, the faculty play a major role for the state, nation, and world in the discovery of new knowledge and the search for answers to society's health care needs. Faculty members engage in teaching, research and patient care in an interdisciplinary environment that encompasses a breadth of expertise that would be impossible and impractical to achieve in a single department or school. The Health Science Center will nurture this environment and will continue to support this integration. An important element of the educational effort is educating primary care health professionals of the highest quality.

Faculty members engage in research and patient care while serving the people of Texas. As the only comprehensive academic health science university located in South Texas, the faculty have the unique advantage of focusing research questions on diseases that are prevalent among the citizens of South Texas, the Border, and Mexico. As a source of leadership in health care, the Health Science Center has the responsibility for providing programs and expertise for the ongoing education of the professional and lay communities. The Health Science Center through its educational and research roles provides the human and physical resources which facilitate the continuing development of the biosciences in the community and the region. Since the Legislative chartering of the Medical School in 1959 as the South Texas Medical School, The University of Texas Health Science Center, with its five health professional schools, has developed into a major health university in the State and nation, and its continuing development should ensure this progress into the future.

The mission of The University of Texas Health Science Center at San Antonio includes teaching, research, patient care, and service. Through the undergraduate, graduate, and postgraduate programs, the faculty is committed to the education of health professionals whose lifelong career objectives will be to provide the best possible health care in the most cost-effective way, to apply contemporary treatment modalities, and to seek information that is fundamental to the treatment and prevention of disease.

The institution consists of the School of Allied Health Sciences, the Graduate School of Biomedical Sciences, the Dental School, the Medical School, and the School of Nursing; and offers degrees and programs in health related fields. The Clinical Laboratory Sciences and Occupational Therapy programs are offered jointly with The University of Texas at San Antonio. A Pharm.D. program is offered jointly with the University of Texas at Austin. In addition, a component of the School of Public Health, The University of Texas at Houston Health Science Center offers the M.P.H. on this campus.

The School of Allied Health Sciences has as its primary responsibility the developing and conducting of high quality education programs offering the opportunity for students to become competent health care providers in allied health sciences. Included in the School's programs are certificate, baccalaureate, and master's degree programs. Five programs are presently offered - certificate programs in Dental Hygiene and Dental Laboratory Technology, baccalaureate programs in Clinical Laboratory Sciences and Occupational Therapy, and baccalaureate* and master's programs in Physical Therapy. The Emergency Medical Technology Department provides paramedical training for San Antonio, Bexar County and surrounding areas. Two additional baccalaureate programs have been approved for educating Physician Assistants and Respiratory Care providers.

The Dental School has as its primary responsibility the developing and conducting of high quality education programs offering the opportunity for qualified students to participate in a program leading to the D.D.S. degree as well as to participate in advanced education programs in a variety of specialty areas and advanced General Dentistry. The dental clinical faculty providing these programs are in the Departments of Community Dentistry, Dental Diagnostic Science, Endodontics, General Practice, Orthodontics, Pediatric Dentistry, Periodontics, Prosthodontics, Restorative Dentistry, and Oral and Maxillofacial Surgery. The Dental School contributes significantly to the body of basic and applied knowledge related to oral health.

The Graduate School of Biomedical Sciences has as its primary responsibility the development and offering of high quality educational programs providing the opportunity for students to pursue M.S. and Ph.D. degrees. Master of Science and Ph.D.s are presently offered in Biochemistry, Cellular and Structural Biology, Microbiology, Molecular Medicine, Nursing, Pharmacology, Physiology, and Radiological Sciences. Four dental U.S. degree programs are offered in Periodontics, Endodontics, Prosthodontics, and Dental Diagnostic Science. The Graduate School jointly administers the graduate program in Pharmacy with The University of Texas at Austin which leads to the Doctor of Pharmacy degree. The Basic Science departments of Biochemistry, Cellular and Structural Biology, Microbiology, Pathology, Pharmacology and Physiology provide education in the basic sciences to students in Allied Health, Dentistry, Medicine and Nursing. The focus of the Graduate School is the discovery, creative application and transfer of knowledge to the solution of society's physical and mental ills.

The primary purpose of the Medical School is the developing and conducting of high quality education programs offering the opportunity for students to pursue the M.D. degree and for residents and fellows to pursue a full range of residency and fellowship training. The Medical Clinical faculty providing these programs are in the Departments of Anesthesiology, Family Practice, Medicine, Obstetrics and Gynecology, Ophthalmology, Orthopaedics, Otolaryngology/Head & Neck Surgery, Pediatrics, Psychiatry, Radiology,

*The last baccalaureate class in Physical Therapy is planned to graduate in 1996.

UTHSC-SA, Mission Statement
Page 3

Rehabilitation Medicine, and Surgery. Conducting biomedical and other health-related research is an integral role of the Medical School.

The School of Nursing has as its primary responsibility the developing and conducting of high quality education programs offering the opportunity for students to participate in programs leading to the B.S.N., M.S.N. and Ph.D. degrees. These educational programs benefit from a faculty that supports competent clinical practice, participates in scholarly activity, and engages in community service.

TABLE OF PROGRAMS

INSTITUTION: The University of Texas Health Science Center at San Antonio

APB: January 24, 1986
 APB: October 26, 1990
 Rev: September 14, 1994

<u>Academic Listing</u>	<u>Categories</u>	<u>Pre-Bacc</u>	<u>Bacc</u>	<u>Mast</u>	<u>Doct</u>	<u>Prof</u>
EDUCATION	13.					
ENGINEERING	14.					
HOME ECONOMICS	19.					
BIOLOGICAL SCIENCES/LIFE SCIENCES	26.			3A	3A	
PSYCHOLOGY	42.					
PHYSICAL SCIENCES	40. & 41.			3B	3C	
HEALTH PROFESSIONS & RELATED SCIENCES	51.					
Communication Disorders Sciences & Services	51.02					
Community Health Services	51.03					
Dentistry (DDS & DMD)	51.04					1
Dental Clinical Sciences/Graduate Dentistry (MS PhD)	51.05					
Dental Services	51.06	3D	1			
Health & Administrative Services	51.07					
Health & Medical Assistants	51.08		1			
Health & Medical Diagnostic & Treatment Services	51.09	3E	1			
Health & Medical Laboratory Technologies/Technicians	51.10		1			
Health & Medical Preparatory Programs	51.11					
Medicine (MD)	51.12					1
Medical Basic Sciences	51.13			1	1	
Medical Clinical Sciences (MS, PhD)	51.14					
Mental Health Services	51.15					
Nursing	51.16		1	1	1	
Osteopathic Medicine (OD)	51.19					
Pharmacy	51.20					
Public Health	51.22					
Rehabilitation/Therapeutic Services	51.23			1		
Veterinary Medicine (DMV)	51.24					
Veterinary Clinical Sciences (MS, PhD)	51.25					
Miscellaneous Health Sciences & Allied Health Services	51.27					
Dental Residency Programs	51.28			1		
Medical Residency Programs	51.29					
Veterinary Residency Programs	51.30					
Miscellaneous Health Professions & Related Sciences	51.99					

FOOTNOTES.

INSTITUTION: The University of Texas **Health** Science Center at San Antonio

APB: January 24, 1986

APB: October 26, 1990

Rev: September 14, 1994

(Footnote references identify Texas CIP code names and code numbers rather than institutional program names.)

- A: BIOCHEMISTRY & BIOPHYSICS (26.02), CELL & MOLECULAR BIOLOGY (26.04), MICROBIOLOGY/BACTERIOLOGY (26.05), Radiation **Biology/Radiobiology** (26.0611), Pharmacology, **Human & Animal** (26.0705.00), and Physiology, Human & Animal (26.0706.00) only
- B: Radiological Physics (40.08X.10) and **Nuclear/Nuclear Power Technology/Technician** (41.0205) only
- C: Radiological Physics (**40.0806.10**) only
- D: Dental Hygienist (51.0602) and **Dental Laboratory Technician** (51.0603) only
- E: Emergency **Medical Technology/Technician** (51.0904) only

THE UNIVERSITY OF TEXAS
M. D. ANDERSON CANCER CENTER

The Mission

The mission of The University of Texas M.D. Anderson Cancer Center is to eliminate cancer and allied diseases as significant health problems throughout Texas, the nation and the world by developing and maintaining integrated quality programs in patient care, research, education and prevention.

The Vision

In return for an investment of public trust and support, the faculty and staff of The University of Texas M.D. Anderson Cancer Center:

**will provide the foremost leadership worldwide
in the care of the cancer patient and
the solution to the cancer problem.**

Their vision, recognizes the enormous toll that cancer takes on society and expresses the confidence that the knowledge and expertise exist at M. D. Anderson Cancer Center to fulfill this commitment.

Role

The 47th Texas Legislature authorized "the Texas State Cancer Hospital and the Division of Cancer Research" in 1941.¹ The 62nd Texas Legislature **reaffirmed** the U. T. M.D. Anderson Hospital as "the official state resource for the education, research and treatment of cancer and allied diseases for **all** citizens and physicians and medical and dental schools of Texas" and as "a national resource...for the benefit of the citizens of Texas, the Southwest and the **nation**".²

The legislative provisions clearly describe a state and national role for the U. T. M.D. Anderson Hospital. Designation of the institution as a comprehensive cancer center under terms of the National Cancer Act of 1971, recognized exceptional strengths in patient care, research, prevention and educational programs and conveyed additional extramural **obligations**.³ Participation in the National Cancer Program through the institution's integration of "its efforts with other programs in a nationwide system for prevention, diagnosis and treatment of cancer" provided the opportunity for the U. T. Cancer Center

¹ House Bill 268, State-Seventh Legislature, Texas, 1941.

² House Concurrent Resolution Sixty-Second Legislature, State of Texas, 1971.

³ Public Law 92-218, 1971.

to achieve recognition for its preeminence in the United States. The Institution fulfills yet another role based upon humanitarian considerations, serving patients with cancer referred from other states and countries that may lack the facilities and clinical skills to manage many cancers.

Scope

The scope of activities was clearly described in the statute establishing U. T. M.D. Anderson Hospital for “the diagnosis, teaching, study, prevention and treatment of neoplastic and allied **diseases**”.⁴ Designation as a comprehensive cancer center further **defined** extramural obligations as development of “an organized cancer detection program” and leadership in “developing community programs” involving participation by practicing physicians in the geographic area served by the institution.

The current scope of activities also requires definition within the context of the mission statement. Prevention, detection, diagnosis, treatment and rehabilitation describe the key elements needed to reduce the impact of cancer in Texas.

(Revised and Resubmitted to the U. T. Board of Regents for Authorization to Submit to the Higher Education Coordinating Board: August, 1994; Consideration by the Coordinating Board pending)

⁴ House Bill 268, Forty-Seventh Legislature, State of Texas 1941.

TABLE OF PROGRAMS

INSTITUTION: The **University** of Texas MD **Anderson** Cancer **Center**

APB: July 16, 1993
REV: **September 12, 1%**

<u>Academic Disciplines</u>	<u>Categories</u>	<u>Pre-Bacc</u>	<u>Bacc</u>	<u>Mast</u>	<u>Doct</u>	<u>Prof</u>
HEALTH PROFESSIONS & RELATED SCIENCES	51.					
Communication Disorders Sciences & Services	51.02					
Community Health Services	51.03					
Dentistry (DDS & DMD)	51.04					
Dental Clinical Sciences/Graduate Dentistry (MS PhD)	51.05					
Dental Services	51.06					
Health & Administrative Services	51.07					
Health & Medical Assistants	51.00					
Health & Medical Diagnostic & Treatment Services	51.09	3A				
Health & Medical Laboratory Technologies/Technicians	51.10	3B	3C			
Health & Medical Preparatory Programs	51.11					
Medicine (MD)	51.12					
Medical Basic Sciences	51.13					
Medical Clinical Sciences (MS, PhD)	51.14					
Mental Health Services	51.15					
Nursing	51.16			3D		
Osteopathic Medicine (OD)	51.19					
Pharmacy	51.20					
Public Health	51.22	3E				
Rehabilitation/Therapeutic Services	51.23					
Veterinary Medicine (DMV)	51.24					
Veterinary clinical sciences (MS, PhD)	51.25					
Miscellaneous Health Sciences & Allied Health Services	51.27					
Dental Residency Programs	51.28					
Medical Residency Programs	51.29					
Veterinary Residency Programs	5130					
Miscellaneous Health Professions & Related Sciences	51.99					

FOOTNOTES

INSTITUTION: The University of **Texas** MD Anderson Cancer Center

APB: July 16, 1993
REV: September 12, 1994

[Footnote references identify Texas CIP code **names** and code **numbers** rather than institutional program names.]

- A: Medical Radiologic Technology/Technician (**51.0907**) only
- B: Medical Technology (51.1005) **only**
- c. **Cytotechnologist (51.1002)**, Medical Technology (51.1005) **,and Cytogenetic Technology (51.1099.02)**, only
- D: Nurse Anesthetist (51.1604) **only**
- E: Health **Physics/Radiologic Health (51.2205)** only

THE UNIVERSITY OF TEXAS
HEALTH CENTER AT TYLER

MISSION

The Mission of The University of Texas Health Center at Tyler is to provide leadership and excellence in the treatment and prevention of cardiopulmonary and chest diseases through the provision of quality patient care, biomedical research and education. In addition, The University of Texas Health Center at Tyler is committed to providing the highest quality of primary care services; conducting clinical and basic research that may alleviate the diseases of mankind; facilitating health education by serving as a teaching hospital for students in medicine, nursing and allied health; and providing community service by educating the public about preventive, acute, chronic, and occupational health issues, as well as scientific and ethical concerns.

ROLE AND SCOPE

As created by the 50th Texas Legislature and Reaffirmed by the 65th Legislation, The University of Texas Health Center at Tyler is a state resource for the education, research and treatment of cardiopulmonary and chest diseases. In addition, the Health Center is a provider of primary health care services in the area.

The Health Center is a fully established and accredited component of The University of Texas System. It does not have independent degree-granting status, but serves as 'a teaching hospital for The University of Texas System, the Texas College of Osteopathic Medicine, and area colleges and universities. Education is a fully integrated and essential component of the institutional mission.

Medical education is offered through the Health Center's three-year Family Practice Residency Program, and through core rotations in cardiopulmonary medicine for third and fourth-year medical students. Health education is offered through clinical rotations in nursing, respiratory therapy, physical therapy, radiology, medical laboratory technology, and exercise physiology. Biomedical research is conducted in the fields of cell biology, environmental sciences, biochemistry, biomathematics, molecular biology, epidemiology, physiology, and microbiology.

5. U. T. Austin: Report on Implementation of the Master of Science in the Commercialization of Science and Technology Degree.--In February 1995, the U. T. Board of Regents approved a request from The University of Texas at Austin to establish a Master of Science in the Commercialization of Science and Technology degree. That proposal provided for the degree program to be offered exclusively in an executive format with a one week intensive seminar at the beginning of the regular semester and class meetings on alternate weekends throughout the remainder of the semester. The program was to be fully self-supporting. No state funds were to be used for the program.

The program was to be offered initially in the Washington, D. C., area (suburban Virginia) and only later in Austin. However, the higher education coordinating agency for the State of Virginia requires that off-campus programs delivered in Virginia be offered at the parent institution prior to or simultaneously with the offering in Virginia. In order to meet that requirement, U. T. Austin will offer the program beginning in the Spring Semester 1996 in both the Washington, D. C., area and in Austin. The same fees will be charged at both locations, and the same missions and other academic standards will apply. The program is based on extensive research in technology transfer and the national policy shift away from a defense-based research and development strategy to a commercialization strategy. Both the research and the curriculum are the work of Dr. George Kozmetsky and the Fellows of the Institute for Constructive Capitalism (IC² Institute) at U. T. Austin.

The Texas Higher Education Coordinating Board has been advised of the planned Austin program offering.

6. U. T. M.D. Anderson Cancer Center: Appointment of Advisory Committee for the Selection of a Chief Administrative Officer (President).--The membership of the Advisory Committee for the Selection of a Chief Administrative Officer (President) for The University of Texas M.D. Anderson Cancer Center is herewith reported for the record. This committee has been constituted pursuant to the Regents' Rules and Regulations, Part One, Chapter II, Section 13. Recognizing the specialized mission of this component as well as its national and international constituency, the U. T. Board of Regents agreed that three members of the Board should serve on this Advisory Committee instead of the two Regents specified in the Regents' Rules and Regulations. The Regents appointed constitute the Health Affairs Committee of the Board of Regents.

Advisory Committee for the Selection
of a Chief Administrative Officer
for
The University of Texas M.D. Anderson Cancer Center

System Administration Representatives

Chancellor William H. Cunningham
Executive Vice Chancellor for Health Affairs
Charles B. Mullins (Chairman)

Board of Regents

Regent Linnet F. Deily
Regent Tom Loeffler
Regent Ellen Clarke Temple

Chief Administrative Officers

M. David Low, M.D., President, The University of
Texas Health Science Center at Houston
Kern Wildenthal, M.D., President, The University of
Texas Southwestern Medical Center at Dallas

Representative of Teaching Program

Eugene M. McKelvey, M.D., Vice President for
Academic Affairs ad interim

Faculty Representatives

Raphael E. Pollock, M.D., Ph.D., Department of
Surgical Oncology
Michael J. Siciliano, Ph.D., Department of
Molecular Genetics
Andrew C. von Eschenbach, M.D., Department of
Urology

Nonfaculty Representatives

Mr. Roger W. Anderson, Head, Division of Pharmacy
Wenonah B. Nelson, R.N., Nurse Manager

Community/External Representatives

Mr. Ben F. Love
Mr. Red McCombs
Mr. Randall Meyer

EXECUTIVE SESSION OF THE BOARD OF REGENTS

Chairman Rapoport reported that the Board had met in Executive Session in the San Saba Room to discuss matters in accordance with Texas Government Code, Chapter 551, Sections 551.071, 551.072, and 551.074. In response to Chairman Rapoport's inquiry regarding the wishes of the Board, the following actions were taken:

1. U. T. Board of Regents: Consultation with Attorneys Regarding Pending Litigation Related to the Termination of a Tenured Faculty Member at U. T. Health Science Center - Houston.--Chairman Rapoport reported that the Board consulted with representatives of the Attorney General's Office regarding pending litigation related to the termination of a tenured faculty member at The University of Texas Health Science Center at Houston and no further action is appropriate at this time.

2. U. T. Austin - Institute for Constructive Capitalism (IC² Institute): Acceptance of Gift of Real Property Located at 2815 San Gabriel Street, Austin, Travis County, Texas, from the RGK Foundation, Austin, Texas.--Vice-Chairman Smiley moved that the U. T. Board of Regents accept, for the use and benefit of the Institute for Constructive Capitalism (IC² Institute) at The University of Texas at Austin, the gift of real property located at 2815 San Gabriel Street in Austin, Travis County, Texas, from the RGK Foundation, Austin, Texas, in accordance with the terms of the Memorandum of Understanding outlined in Executive Session and as approved by the President of U. T. Austin, the Executive Vice Chancellor for Academic Affairs, the Executive Vice Chancellor for Business Affairs, and the Office of General Counsel.

Regent Temple seconded the motion which carried without objection.

Vice-Chairman Smiley recognized Dr. George Kozmetsky, Executive Associate for Economic Affairs for The University of Texas System and a trustee of the RGK Foundation, and expressed appreciation for this most generous gift and his continued support of the U. T. System.

3. U. T. San Antonio: Approval for Executive Vice Chancellor for Business Affairs to Execute All Documents Relating to Amendments to Ground Lease and Management Agreement for Chisholm Hall Dormitory and Recreation Center with Phase I Dormitory Partnership (Century Development Corporation).--Upon motion of Regent Loeffler, seconded by Regent Temple, the Board authorized the Executive Vice Chancellor for Business Affairs or his delegate to execute all documents relating to amendments to The University of Texas at San Antonio Chisholm Hall Dormitory and Recreation Center ground lease and management agreement with the Phase I Dormitory Partnership (Century Development Corporation) in accordance with the parameters outlined in Executive Session.

REPORT OF BOARD FOR LEASE OF UNIVERSITY LANDS

Regents Rapoport and Lebermann, as members of the Board for Lease of University Lands, submitted the following report on behalf of that Board:

Report

The Board for Lease of University Lands met on September 14, 1995, in the Stephen F. Austin Building, Austin, Texas, for a special meeting called by Commissioner Garry Mauro.

Following is a report on the meeting:

- a. Approved the Minutes of the Board for Lease meeting of May 23, 1995
- b. Approved negotiation of a temporary production unit requested by Pogo Producing Company
- c. Approved bid specifications for the oil royalty take-in-kind program
- d. Met in Executive Session to discuss the class action lawsuit Texas General Land Office on behalf of the Permanent University Fund of the State of Texas, et al. vs. Amoco Production Company, et al. and agreed to participate as a class representative subject to the concurrence of the U. T. System.

REPORT OF SPECIAL COMMITTEES

U. T. Board of Regents - Special Committee on Minorities and Women: Report by Committee Chairman Holmes.--Chairman Rapoport reported that he had asked Regent Holmes to chair a Special Committee on Minorities and Women which will have a defined responsibility to advance The University of Texas System initiatives in these two important areas. Chairman Rapoport then called on Regent Holmes who presented the following report:

Report

As the Board will recall, at our February 1994 meeting Chancellor Cunningham reported to us on the status of women and minorities in faculty and senior administrative positions within The University of Texas System.

Shortly after that meeting, the Chancellor appointed a Committee on the Advancement of Minorities and a Committee on the Advancement of Women to conduct a study and to recommend actions that would assist in increasing the numbers of women and minorities in faculty and senior administrative positions at U. T. System component institutions.

The Special Committee which I chair has received status reports on the work of these two committees previously, and at our last briefing on October 2 we had a lengthy discussion of the draft report of the Committee on the Advancement of Minorities. Participating were several members of the Committee, as well as five chief academic officers from selected academic and health components who were invited to join in the discussion. It was an interesting and helpful interaction -- one that I wish each of you could have joined.

The final report of the Committee on the Advancement of Minorities has now been forwarded to Chancellor Cunningham. I would like to ask him to introduce the chairman of that committee for a brief presentation and then to comment on the recommendations included in the report.

Following Regent Holmes' report, Chancellor Cunningham called on Dr. Clifford Houston, Chair of the U. T. System Committee on the Advancement of Minorities and Professor of Microbiology and Immunology and Associate Vice President for Multicultural Affairs at The University of Texas Medical Branch at Galveston, to present a progress report on the work of the Committee.

With a copy of the [Committee Report](#) before each member of the Board (and on file in the Office of the Board of Regents) and with the aid of viewgraphs, Dr. Houston presented a comprehensive summary of the findings and recommendations of the Committee. He noted that at the initial meeting of the Committee in June 1994, Chancellor Cunningham gave the Committee its charge which included:

- Assess current programs for increasing the number of minorities preparing for academic careers
- Recommend ways of having a major impact on the academic "pipeline" not only to increase the overall numbers but also to encourage minorities to enter fields in which they have been underrepresented
- Assess policies and programs for recruiting, retaining, and promoting minorities into senior faculty and administrative positions and recommend innovative methods of professional career development
- Recommend ways to expand collaboration among U. T. System components in their efforts to enhance faculty and administrative opportunities for minorities
- Monitor and advise on national employment and educational issues of significance to minorities.

Dr. Houston noted that the Committee Report responds in detail to each of the Committee charges and provides a concise statement of goals and objectives for the U. T. System as set forth below:

- GOAL 1: To serve the best interests of Texas by increasing the recruitment of minority faculty and administrators.

Objective 1.1: Increase significantly the representation of tenured and tenure-track faculty from underrepresented groups on each component campus by the year 2000.

Objective 1.2: To significantly increase the representation of administrators from underrepresented groups on each component campus.
- GOAL 2: To create an environment free of the racial hostility and prejudice that inhibit individuals from maximizing their potential.

Objective 2.1: Develop formal Regental oversight for compliance with System-wide diversity goals in all job categories and with implementation of established policies.

Objective 2.2: Aggressively address those environment factors that inhibit individuals from maximizing their potential.

- GOAL 3: To support the development, retention, and productivity of minority faculty and administrators.

Objective 3.1: Increase the retention of minority faculty.

Objective 3.2: Increase the retention of minority administrators.

Dr. Houston indicated that the report also included detailed strategies and recommendations for the achievement of the goals and objectives and reviewed these briefly. He concluded his report by expressing the appreciation of the Committee to Chancellor Cunningham and the Board of Regents for the opportunity to undertake this most challenging assignment.

Following Dr. Houston's presentation, Chancellor Cunningham expressed his gratitude to the Committee for its thoughtful and practical report to further the U. T. System's commitment to the fundamental concepts of equality and fairness.

Chancellor Cunningham filed with the Board the report set out on Pages 264 - 269 which summarizes his actions related to the Report of the Committee on the Advancement of Minorities.

Report by Chancellor Cunningham

The Report of the Committee on the Advancement of Minorities contains many thoughtful recommendations for policies and procedures that The University of Texas System and its component institutions might employ to enhance the diversity of their faculties and senior administrative staffs. I commend the Committee for its hard work, which has resulted in a constructive Report that will be a valuable guide for strengthening existing programs.

I recognize and applaud the long-standing policies and programs (detailed in Appendix 5 of the Report) that have been implemented by U. T. System component institutions to increase faculty and staff diversity. As the Committee has made clear, the relative lack of diversity among faculty and senior administrators in the U. T. System, as well as in higher education institutions across the nation, reflects complex historical, social, demographic and economic forces. Among these, none is more contrary to public morality or destructive of the objectives and processes of human development than discrimination on the basis of race, gender or national origin. Dealing effectively with the impact of these factors on higher education requires persistent effort on many fronts. The U. T. System has made the sustained commitment that is necessary in order to increase diversity, and the work of this Committee provides an excellent opportunity to reaffirm and intensify that commitment.

The Committee's recommendations, presented on pages 60-68 of the Report, provide a concise statement of goals for the System with regard to professional opportunity for members of minority groups. I endorse the fundamental goals stated by the Committee:

- ***To serve the best interests of Texas by increasing the recruitment of minority faculty and administrators.***
- ***To create an environment free of the racial hostility and prejudice that inhibit individuals from maximizing their potential.***

- ***To support the development, retention, and productivity of minority faculty and administrators.***

- ***To create and maintain campus living, learning, and faculty and staff workplace environments that encourage and support the development of students, faculty, and staff to their highest potential of intellectual achievement, artistic skill, or professional and personal growth irrespective of race, color, gender, or national origin.***

Most of the detailed recommendations of the Committee are summarized in the Report as “strategies” (pages 60-61) for achieving these goals and the objectives derived from them. These strategies are amplified on pages 62-68 under the headings “Organization Structure and Procedure,” “Strategic Planning” and “Action Planning.” Pages 62-68 also contain additional recommendations that were not discussed in the previous section of the Report.

After careful review of the recommendations, it is clear that they contain many suggestions worthy of adoption by the U. T. System and/or the component institutions, as well as some suggestions that require further study.

1. RECOMMENDATIONS APPROVED OR ENDORSED

A. RECOMMENDATIONS APPROVED FOR SYSTEM-WIDE IMPLEMENTATION

- The recommendation to establish a Regental-level committee to monitor actions related to this Report, as well as the forthcoming report on advancement opportunities for women, was implemented before the Committee on the Advancement of Minorities completed its work. The Regents’ Committee on Minorities and Women was established in Spring 1995 and includes Regents Zan Holmes, Don Evans and Martha Smiley. This Committee is making a very valuable contribution in studying and monitoring these issues. (Strategy 2.1.3, page 60)

- A requirement that has been in place for some time for annual reports to the Coordinating Board is closely related to the Committee’s recommendation that each institution submit annual progress reports to the Chancellor’s Office concerning diversity initiatives and the hiring of minority faculty and administrators. R. D. Burck, executive vice chancellor for business affairs, is working with the component institutions to coordinate these annual reports so

they are in a uniform format throughout the System, relying as much as possible on the reports that institutions have been making to the Coordinating Board. (Strategy 2.1.4, page 61)

- I have directed that “institutional diversity profiles” be developed. The U. T. System Office of Human Resources will work with the component institutions in compiling historical and current data as part of the profiles, and the development of diversity projections for future years will be coordinated by James P. Duncan, executive vice chancellor for academic affairs, and Charles B. Mullins, executive vice chancellor for health affairs. (Strategy 1.2, page 64)

- The recommendation to monitor hiring and promotion practices for good faith efforts to attract and facilitate advancement of minority applicants for faculty and administrative positions should be an integral part of personnel management practices. Dr. Duncan and Dr. Mullins will work with the component institutions to ensure implementation of these practices throughout the U. T. System. (Strategy 1.2.1, page 60)

- The U. T. System will implement the recommendation that progress toward attainment of diversity goals and objectives be included as a formal part of the regular performance expectations and evaluations of administrators throughout the System. This has previously been done without a formal policy. (Strategy 2.1.1, page 60)

- The recommendation to use the U. T. System’s faculty and student advisory groups as resources in the effort to achieve diversity goals will be implemented. The Student Advisory Group has had a standing committee on minority and multicultural concerns since its inception. (Strategy 2.2.3, page 61)

- Also to be implemented is the recommendation to include in campus strategic plans detailed goals and objectives related to attaining a diverse campus community. (Guideline 8, page 63)

B. RECOMMENDATIONS ENDORSED BY THE CHANCELLOR AND TO BE INCLUDED IN THE U. T. SYSTEM’S LEGISLATIVE FUNDING REQUESTS

- The recommendations for a System-wide junior faculty development program (Strategy 1.1.6, page 60) and for a scholars identification and financial aid program (Strategy 2.2, page 65) offer a number of promising possibilities. Michael D. Millsap, vice chancellor for governmental relations, will prepare a

proposal for State funding of such programs in the U. T. System, using the Florida Education Fund as one model.

- Also to be included in the System's funding request will be an increase in State support for existing initiatives related to recruiting, retaining and promoting minority faculty and senior administrators. (Strategy 1.1.7, page 60)

With regard to each of the items in this section, I will encourage the component institutions to seek additional financing for these purposes from existing funds, as well as to continue to seek additional private support for these efforts. It is recognized, however, that securing adequate private funding in this area will be difficult, if not impossible, without new State support.

3. RECOMMENDATIONS ENDORSED BY THE CHANCELLOR AND REFERRED TO COMPONENT PRESIDENTS FOR ACTION.

- A series of five recommendations deal with efforts to recruit minority faculty and to increase significantly the diversity of the tenured and tenure-track faculties of U. T. System institutions. These are excellent recommendations and, indeed, are related to activities that most components have been engaged in for an extended time. Most of these recommendations involve activities that are the responsibility of individual institutions. Therefore, I am directing each component president to review the recommendations that they do not already have in place to determine the feasibility of implementing them so each campus can work more effectively to increase diversity. The annual reports from each campus on diversity issues will include an account of the specific actions taken with regard to this set of recommendations. (Strategies 1 .1.1 through 1 .1.5, page 60)

- Another series of six recommendations dealing with retention of minority faculty provide an array of strategies, including faculty mentoring programs, support for teaching effectiveness centers, and clearly established and communicated processes for granting tenure. As with the recruitment recommendations cited above, these involve activities that are best implemented locally. Therefore, I am directing each component president to review the retention recommendations that they do not already have in place to determine the feasibility of implementing them. The annual reports on diversity issues will also include an account of the specific actions taken with regard to this set of recommendations. (Strategies 3.1.2 through 3.1.7, page 61)

Many programs such as those envisioned by the recruitment and retention recommendations discussed above have been implemented over an extended time at some component institutions. It is desirable, however, that all of these efforts be reviewed at all component institutions as part of a comprehensive reevaluation in light of the Committee's recommendations.

2. RECOMMENDATIONS REFERRED TO COMPONENT PRESIDENTS FOR FURTHER STUDY

- I endorse in concept the recommendation that funds from existing appropriations be designated for the support of programs to help expand the number of minority employees in executive, administrative, managerial and professional staff positions. However, I recognize that there are many claims on current funds, and it is clear that the component institutions have been making efforts to direct funds toward diversity programs. Nevertheless, I am encouraging the presidents to consider this recommendation and evaluate whether it is possible to allocate even more of their current appropriations for this vital effort. (Strategy 1.2.2, page 60)

- The recommendation related to institutional assessments at each campus will be referred to the component presidents for their consideration. (Strategy 2.2.1, page 61)

- The recommendation that faculty and administrators attend educational programs dealing with diversity goals will be referred to the component presidents to evaluate as a possibility for implementation at the campus level. (Strategy 2.2.2, page 61)

- Referred to the component presidents is the recommendation to standardize organizational placement of the Affirmative Action/Equal Employment Opportunity function to report directly to the chief administrative officer. (Guideline 5, page 62)

- , Also referred to the component presidents for their review is the recommendation for a Council on Human Diversity at each campus to advise regarding planning required to increase diversity. (Guideline 6, page 62)

3. RECOMMENDATIONS REQUIRING FURTHER STUDY AT THE SYSTEM LEVEL

- I am continuing to study the advisability of establishing a position that reports to the Chancellor with primary responsibility for oversight of diversity goals throughout the System (Strategy 21.2, page 60), as well as the recommendation to realign the placement of the System's Affirmative Action and Equal Employment Opportunity function from the Office of Director, Human Resources to the Office of the Chancellor. (Guideline 4, page 62)

- The recommendation to establish internships to support the advancement of diversity. could be of great benefit in providing enhanced management experience. The executive vice chancellors for academic affairs and health affairs will join me in discussions with the component presidents regarding the practical possibilities for implementing this recommendation, including an assessment of costs and possible sources of funding. (Strategy 3.2.1, page 61)

- The recommendation for a study of issues related to disparities in student achievement in the public schools has been referred to Gwen Grigsby, assistant vice chancellor for governmental relations, who directs the U. T. System's ongoing initiative for collaboration between the System and the public schools. (Strategy 2.1, page 65)

Again, I wish to thank the Committee on the Advancement of Minorities for its work. The U. T. System and its component institutions have been working to achieve greater diversity for many years, and much progress has been made. Nevertheless, it is clear that much more remains to be achieved. Our long-standing efforts, and the renewed concentration on these issues resulting from the Committee's recommendations, are properly viewed as part of a long-term, comprehensive initiative that must involve many aspects of society, including family and K-12 learning systems, health care and other systems that support human development. The U. T. System is committed to a constructive and, indeed, a leading role in meeting that challenge.

SCHEDULED MEETING.--Chairman Rapoport announced that the next scheduled meeting of the U. T. Board of Regents would be held on February 8, 1996, at The University of Texas at El Paso.

ADJOURNMENT.--There being no further business, the meeting was adjourned at 2:50 p.m.

/s/ Arthur H. Dilly
Executive Secretary

November 20, 1995