Tuition Policy Advisory Council
Meeting Notes
February 5, 2004

The Tuition Policy Advisory Council met on Thursday, February 5, 2004 in room 229 of the Memorial Student Center. The meeting was called to order at 3:30 p.m.

Guest: Gregory Anderson.

Greg Anderson, Associate Vice Chancellor and Treasurer of the Texas A&M University System provided a historical perspective of the Permanent University Fund (PUF). In 1838, Mirabeau Lamar, President of the Republic of Texas, gave a speech that became the cornerstone of this fund. In 1839, President Lamar signed legislation to provide for the creation of institutions of primary and higher education. 221,420 acres of land was designated to be set apart to establish and endow two colleges or universities. A constitutional amendment in 1876 established the Permanent University Fund. In 1883, the Texas Legislature gave another 1,000,000 acres in West Texas to PUF because "the land was too worthless to survey". Oil was discovered on this land in 1923, after a group of Catholic nuns invested in the drilling of the first well.

In 1928, the Attorney General allowed bonds to be issued against PUF revenue. The Texas Legislature in 1931 determined that the PUF interest and dividends would be distributed as 2/3 to the University of Texas and 1/3 to Texas A&M University. This apportionment was based on enrollment at the time. In 1968, a constitutional amendment allowed additional types of corporate bond and equity investments available to the PUF. A 1984 constitutional amendment made all existing UT and TAMU system components eligible for PUF bond proceeds. Current PUF beneficiaries include 14 UT System academic institutions and 12 TAMUS academic institutions and agencies. Another constitutional amendment in the same year established a Higher Education Fund (HEF) endowment for higher education institutions that were not recipients of PUF. With many constraints attached, Texas Tech receives about $21M and the University of Houston receives approximately $26M, based on a 10-year cycle.

The PUF started as a mineral-based fund, but in 1988, it moved to an investment-based fund. In 1996, legislation passed that allowed the University of Texas Board to enter into a contract with the newly formed entity, The University of Texas Investment Management Company (UTIMCO). UTIMCO manages the PUF and was the first privately managed fund for a public university. The Board of Regents at Texas A&M University appoints one member to UTIMCO. Currently, that member is R.H. (Steve) Stevens, Jr.

In 1999, Proposition 17 was approved as a constitutional amendment that approved a total return payout policy allowing for the distribution of income, as well as realized and unrealized gains and the payment of PUF expenses from PUF assets. The amendment also directed the UT Board of Regents to establish a distribution policy.

Appropriated revenue for all schools and agencies of higher education is $2.3B. $348M is appropriated to UT and TAMU, with $116M of that being allocated to Texas A&M. Designated tuition generates approximately $52M per year and sales produce about $166M per year in internal revenue. Full disclosure of the current biennium House Bill 1 is available at http://www.lbb.state.tx.us/Bill_78/7_FSU/Bill-78_7.htm.

The Texas Supreme Court determined in 1926 that PUF royalties must be reinvested. This decision caused the endowment to grow rapidly. Today, the PUF portfolio includes US and international stocks and hedge funds. A full listing of investments may be found at http://www.utimco.org/scripts/internet/fundsdetail.asp?fnd=2. The PUF serves more than 160,000 students.

Income from PUF is placed into a PUF investment portfolio. Then, a 4.75% payout is made to the Available University Fund (AUF), which is the income from PUF that can be spent. Service must be funded first. Surface income amounts to about $6M and mineral income is around $348M. AUF is distributed four times per year. The distribution between Texas A&M and Prairie View A&M is determined by legislative appropriation.

PUF Bonds are used to fund such things as:

- Academic construction (PUF bonds were not used to fund the building of Reed Arena or the Recreational Sports facility)
- Major renovations
- Library equipment and materials
- Education and research equipment

The bonds have been rated AAA, which translated into payment of the lowest interest costs. Since 1932, UT and TAMU have issued a combined $2.2B in PUF bonds for permanent improvements.

The total PUF debt outstanding is $307M. An additional $400M debt capacity is available. However, the cost to make full use of this capacity would require that $40M per year be taken out in allocation, which would reduce the budget. The current PUF bonding capacity for construction is $0 until 2005.

The PUF investment objective is to earn an annual income of 5.1% over a ten-year period or longer. The investment policy asset allocation is broken down as follows:

• US Equities	25%
• International Equities	17%
• Hedge Funds	25%
• Private Capital	15%
• Commodities	3%
• Fixed Income	15%
	100%

The next meeting will be Thursday, February 12 at 3:30 p.m. Presentations will be made on the University budget and formula funding.

The meeting was adjourned at 5:25 p.m.