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Committee Meeting: 2/26/2020

Board Meeting: 2/27/2020
Austin, Texas

R. Steven Hicks, Chairman
David J. Beck
Jodie Lee Jiles
Janiece Longoria
Kelcy L. Warren
Rad Weaver

	Committee Meeting	Board Meeting	Page
A. CONVENE JOINT MEETING WITH AUDIT, COMPLIANCE, AND RISK MANAGEMENT COMMITTEE	<i>1:00 p.m.</i> <i>Chairman Hicks</i>		
1. U. T. System: Fiscal Year 2019 Consolidated Annual Financial Report, including the Independent Auditors' Report, and audits of the financial statements of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston and for funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO)	<i>1:00 p.m.</i> Report/Discussion <i>Ms. Hinojosa Segura</i> <i>Mr. Peppers</i> <i>Ms. Tracey Cooley,</i> <i>Mr. Blake Rodgers,</i> <i>Deloitte & Touche</i>	Not on Agenda	44
B. ADJOURN JOINT MEETING AND CONVENE FINANCE AND PLANNING COMMITTEE IN OPEN SESSION			
2. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	<i>1:30 p.m</i> Discussion	Action	82
3. U. T. System: Financial Status Presentation and Monthly Financial Report	<i>1:35 p.m.</i> Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	83
4. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2019	<i>1:50 p.m</i> Report/Discussion <i>Ms. Hinojosa Segura</i>	Not on Agenda	110

	Committee Meeting	Board Meeting	Page
5. U. T. System: Approval of the Fiscal Year 2021 Budget Preparation Policies, Calendar for budget operations, and amendments to the Annual Operating Budget Rules and Procedures	2:00 p.m. Action <i>Mr. Long</i>	Action	189
6. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update	2:10 p.m. Report/Discussion <i>Mr. Britt Harris</i>	Not on Agenda	206
7. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Overview of Public Strategic Partnerships	2:20 p.m. Report/Discussion <i>Mr. Britt Harris</i> <i>Mr. Rich Hall</i>	Not on Agenda	229
C. ADJOURN	2:30 p.m		

1. **U. T. System: Fiscal Year 2019 Consolidated Annual Financial Report, including the Independent Auditors' Report, and audits of the financial statements of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston and for funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO)**

Ms. Hinojosa Segura, Associate Vice Chancellor and Controller, will discuss the Fiscal Year 2019 Consolidated Annual Financial Report (AFR) highlights. Ms. Hinojosa Segura's PowerPoint presentation on [Pages 45 - 56](#) is included for additional detail. The [AFR](#) is available online.

Ms. Tracey Cooley and Mr. Blake Rodgers, Deloitte & Touche LLP, will report on the results of the audit of the U. T. System AFR and audits of the financial statements of U. T. Austin, U. T. M. D. Anderson Cancer Center, U. T. Southwestern Medical Center, U. T. Medical Branch - Galveston, and the funds managed by The University of Texas/Texas A&M Investment Management Company (UTIMCO) for Fiscal Year 2019. Deloitte's PowerPoint presentation with required communications to the Audit, Compliance, and Risk Management Committee is set forth on [Pages 57 - 81](#).

BACKGROUND INFORMATION

The AFR is prepared in compliance with Governmental Accounting Standards Board pronouncements and State Comptroller of Public Accounts directives and filed with the oversight agencies on November 20 of each year as required by *Texas Government Code*, Section 2101.011. Deloitte & Touche LLP issued an unqualified opinion on the U. T. System Consolidated Financial Statements on December 20, 2019.

Annual Financial Report & Highlights Fiscal Year 2019

Veronica Hinojosa Segura, Associate Vice Chancellor
Controller

U. T. System Board of Regents' Meeting
Joint Meeting of the Finance and Planning Committee and
Audit, Compliance, and Risk Management Committee
February 2020



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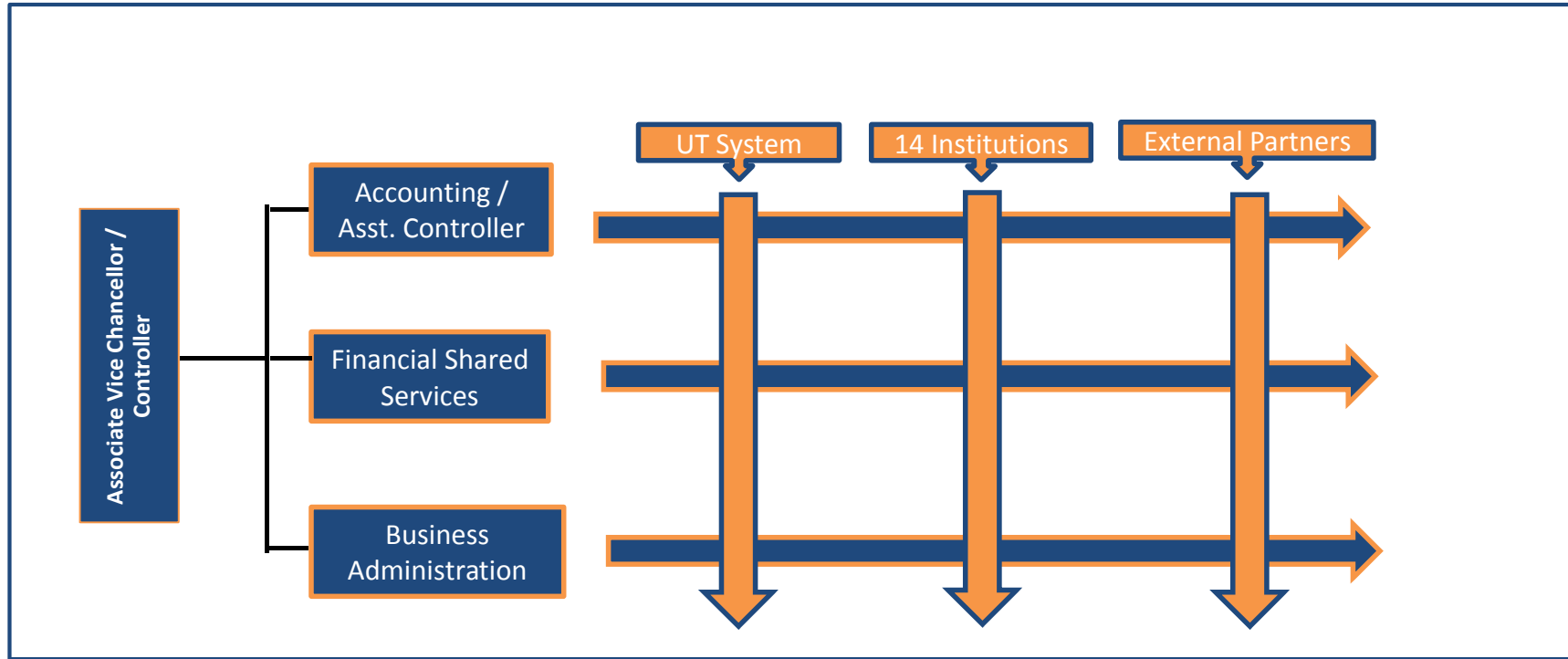
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Updates

- Controller's Office Year in Review
- Annual Financial Report (AFR)
- Administration and Operational Highlights
- Outlook for FY 2020



Organizational Landscape



Strategic Framework



Vision

To recruit, retain, and develop employees who provide exceptional service through innovation in support of the Controller's and UT System's mission.



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Components of Annual Financial Report

Management Discussion & Analysis
(MD&A)

Primary Financial Statements

Statement of
Net Position
(SNP)

Statement of Revenue,
Expenses & Changes in
Net Position
(SRECNP)

Statement of
Cash Flows

Notes to the Financial Statements

Required Supplementary Information
(RSI)

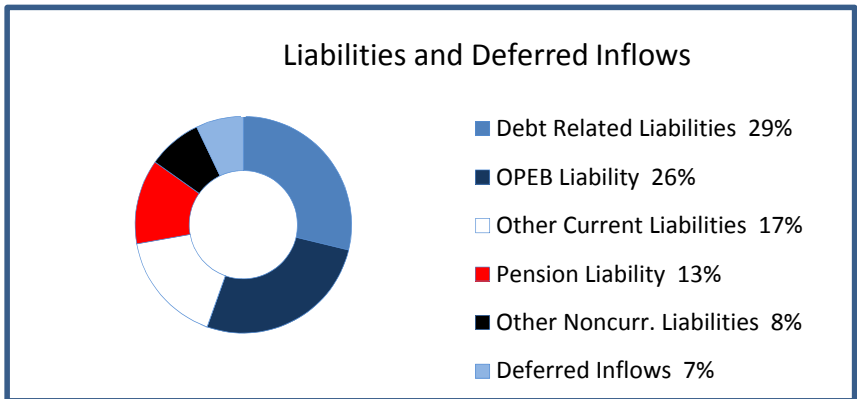
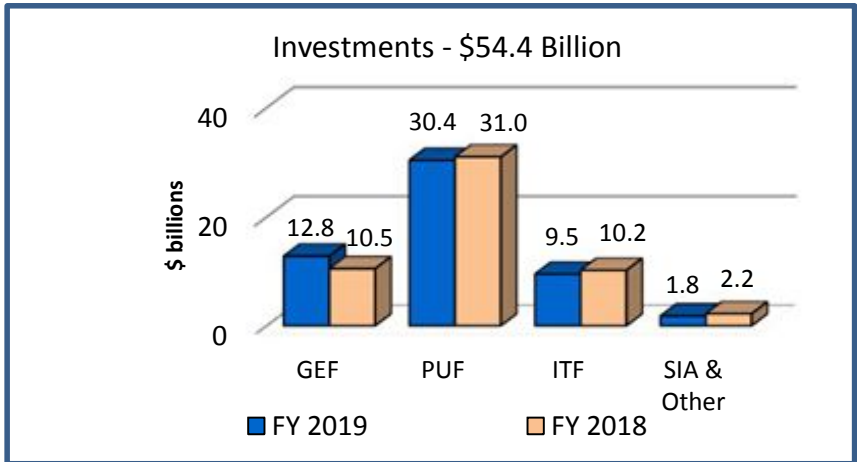
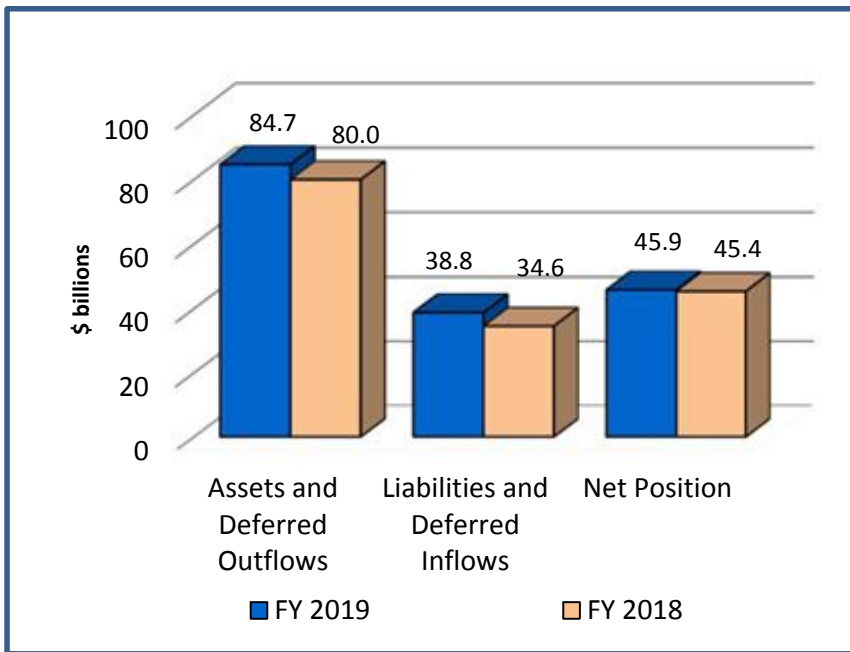


FY 2019 Consolidated Financial Position

- Net Position: \$45.9B
 - \$471.8 million increase from FY2018
- SRECNP: Adjusted Net Income = \$333.7M
- Cash Flows: Cash & Cash Equivalents = \$4B

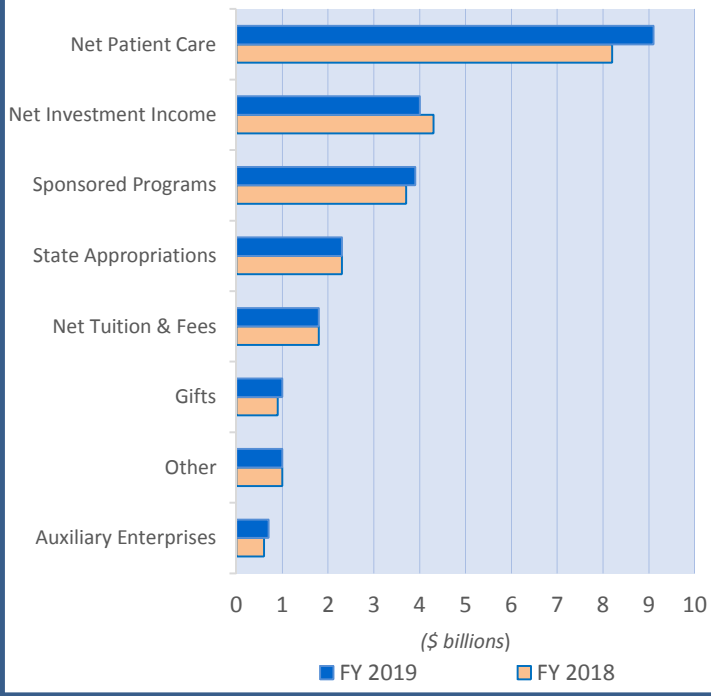


Financial Highlights - Net Position



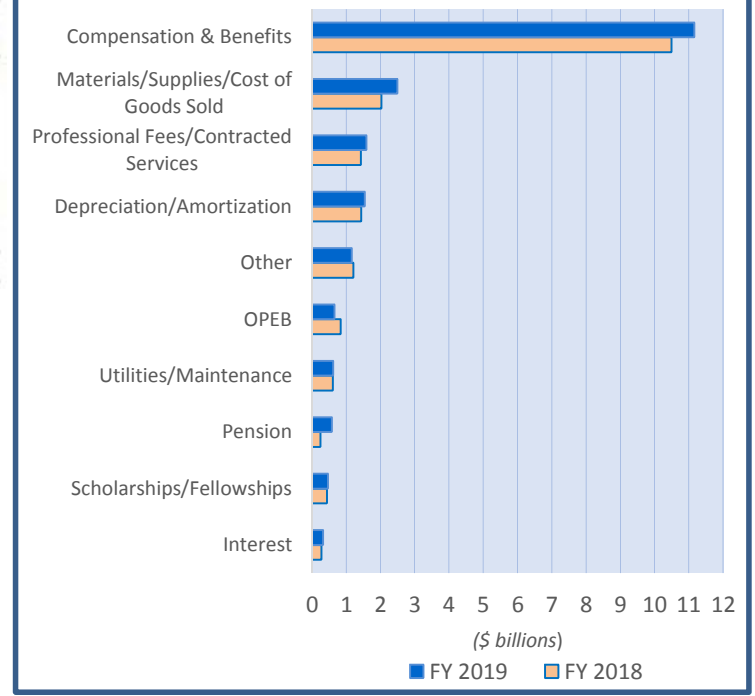
Financial Highlights - Net Income

Revenues Supporting Core Activities
2019-2018



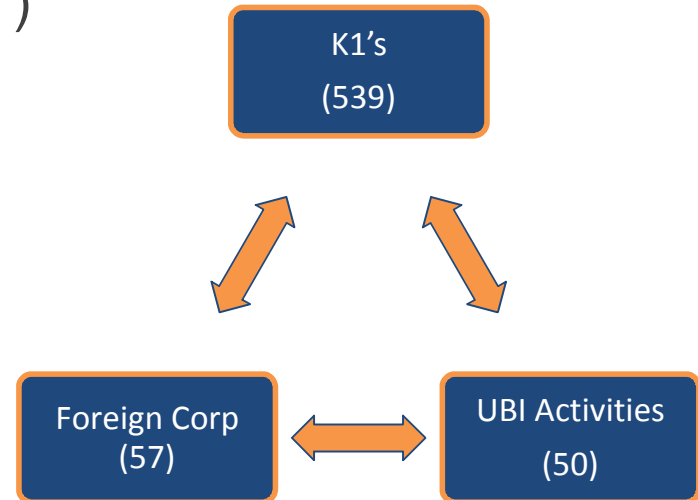
	2019
	<i>(\$ in millions)</i>
Operating Revenues	\$ 16,049.3
Operating Expenses	(20,284.8)
Operating Loss	(4,235.5)
State Appropriations	2,283.2
Gifts & Nonexchange Grants	879.2
Net Investment Income	4,040.5
Net Incr./ (Decr.) in FV of Invest.	(2,322.1)
Interest Expense	(334.8)
Net Other Nonop. Revenue	23.2
Adjusted Net Income	\$ 333.7

Expenses Associated with Core Activities
2019-2018



Business Administration Highlights: Tax Compliance

- Qualified Transportation Fringe Benefit (QTFB)
- Unrelated Business Income Tax (UBIT)
- 990-T Activity



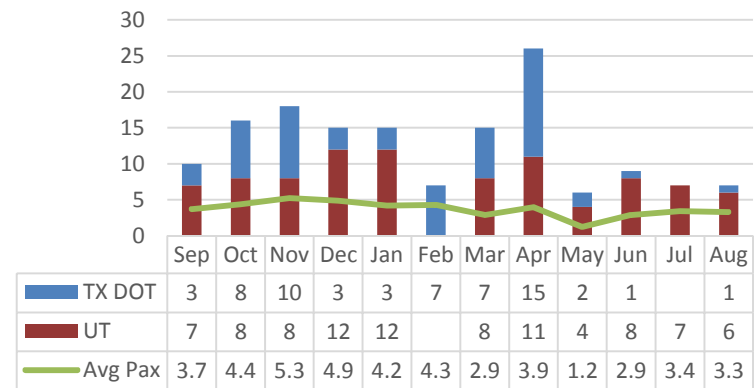
Business Administration Highlights

Audit

- Contract for systemwide audits and standalone
 - MDA, AUS, GMB, SWM, SWM Hospital
- Five SACS Accreditation
 - PB, SA, HCT, HHS, RGV
- Six Student Financial Aid
 - UTT, SA, PB, HHS, RGV, ARL

Aircraft Operations

FY 2019 Flights Per Month

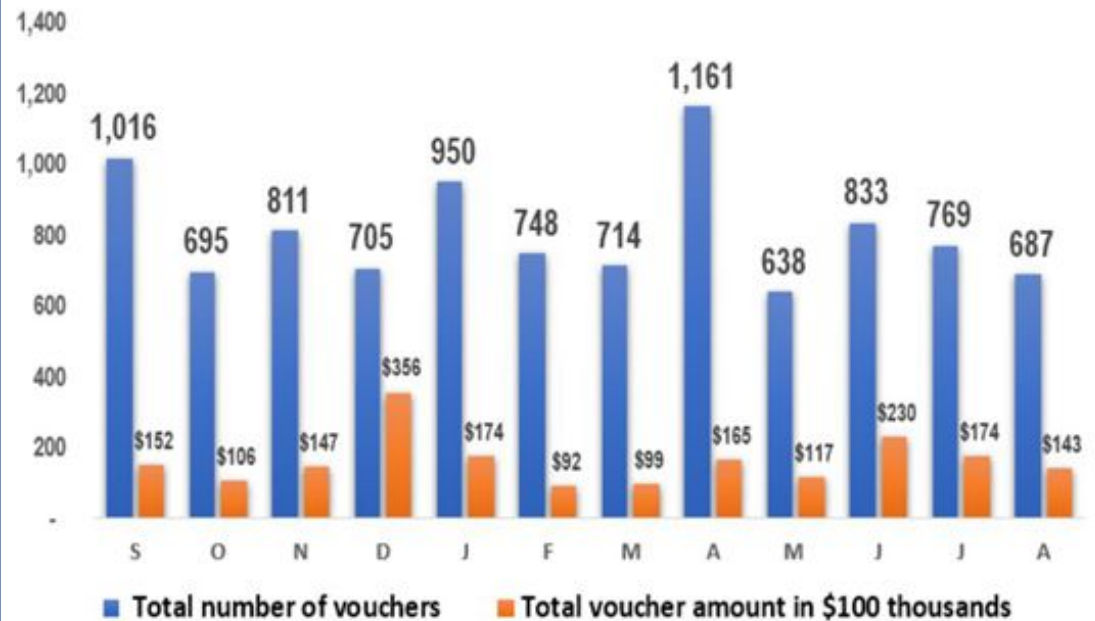


Financial Shared Services Highlights

Innovation

- E-Invoice processing
- Electronic Vendor Management
- Automated Employee Travel & Expense reimbursement
- Banking products
 - Online credit card payment portal
 - Lockbox

Vouchers Processed in FY 2019



FY 2020 Outlook



- Innovation & Automation
 - Vendor and Invoice Management Systems
 - Monthly Reconciliation



- Quality & Accountability
 - Identify Key Performance Indicators (KPI's)
 - State Income Tax Determination



- Customer Focus
 - GASB
 - Statewide & National Presence – TASSCUBO , NACUBO presence
 - UT System Institutions Collaborations



Deloitte.



**Presentation to:
The University of Texas System
Audit, Compliance and Risk Management Committee**

February 2020

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Significant Accounting Policies	9
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Audit Status

- We have performed an audit of the consolidated financial statements of The University of Texas System (U. T. System) for the years ended August 31, 2019 and 2018 in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- As a part of this audit process, we issued our report, dated December 13, 2019, on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* for the year ended August 31, 2019.
- We have prepared the following comments to provide information about the external audit process in the context of your obligation to oversee the financial reporting and disclosure process for which management of the U. T. System, The University of Texas/Texas A&M Investment Company (UTIMCO), and the U. T. institutions with stand-alone audits are responsible.

Engagement Status – Fiscal Year 2019

Financial Statement Audits:

U. T. System – Consolidated
UTIMCO Funds
U. T. M.D. Anderson Cancer Center
U. T. Southwestern Medical Center
U. T. Medical Branch – Galveston
U. T. Austin

Status: All audits have been completed

Student Financial Aid Compliance Audits:

U. T. Health Science Center – Houston
U. T. Rio Grande Valley
U. T. San Antonio
U. T. Permian Basin

Status: In process and to be completed later in February

Review Engagements:

U. T. Health Science Center – Houston
U. T. Health Science Center – Tyler
U. T. Permian Basin
U. T. Rio Grande Valley
U. T. San Antonio

Status: U. T. Health Science Center – Houston and U.T. Permian Basin are in process; the others have been issued.

Independent Auditors' Report

- Deloitte & Touche LLP issued an unmodified opinion and included emphasis of a matter paragraph:
 - The consolidated financial statements of The University of Texas System are intended to present the financial position, the changes in financial position, and cash flows of the State of Texas attributable to the U. T. System. They do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2019 and 2018, the changes in its financial position, or cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Audit Scope

- Our audit scope was outlined in our contract dated June 30, 2016, as amended, and was not restricted in any manner.
- No significant changes resulted from the execution of the external audit plan.
- Our auditing procedures addressed the areas of focus identified in our external audit plan dated August 18, 2019; these areas included:
 - Management override of controls
 - Valuation of patient accounts receivable
- No significant changes resulted from the execution of the external audit plan.

Audit Scope (continued)

- We received direct assistance from Internal Audit departments in connection with this year's audits.
 - Internal audit provided significant support in understanding the accounting processes and relevant controls, sharing historical knowledge, and performing substantive testing.
 - Internal auditors worked as part of the team at most institutions, including the institutions with stand-alone audits.
- We also contracted five HUB subcontractors in the external audit effort.

Management Judgments and Accounting Estimates

- Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Our assessment of the significant accounting estimates reflected in the U. T. System's Fiscal Year (FY) 2019 consolidated financial statements include the following:
 - Valuation of patient accounts receivable
 - Valuation of PUF oil and gas reserves
 - Net pension liability (NPL) and related deferred outflows of resources and deferred inflows of resources
 - Total other postemployment benefits (OPEB) liability and related deferred outflow of resources and deferred inflows of resources
- Detail of management's approach to estimating these balances and our audit procedures are in Appendix A.

Significant Accounting Policies

- The U. T. System's significant accounting policies, as determined by management, are set forth in Note 4 to U. T. System's FY 2019 financial statements.
- We have evaluated the significant qualitative aspects of U. T. System's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

U. T. System IT Audit Approach and Overview

- Areas of IT audit focus
 - Network operations
 - Access security
 - System change management

- Audit approach and outline of procedures over IT controls
 - Design and Implementation: Tested for all relevant IT controls

U. T. System IT Audit Scope

Institution	Design & Implementation Systems	Audit Engagements
U. T. MD Anderson	Hyperion PeopleSoft (FIN & HCM) EPIC	Financial statement audit
U. T. Southwestern	PeopleSoft (FIN & HCM) EPIC Resolute	Financial statement audit
U. T. Medical Branch	PeopleSoft (FIN & HCM) EPIC	Financial statement audit
UTIMCO	MS Dynamics BNY Mellon Data Warehouse	Financial statement audit
U. T. Austin	DEFINE – Tuition and Fees Workday – Payroll	Financial statement audit
U. T. Dallas	PeopleSoft (FIN & HCM) Campus Solutions	Financial statement audit

U. T. System IT Audit Scope (continued)

Institution	Design & Implementation Systems	Audit Engagements
U. T. System Administration (UTS)	FCRS PeopleSoft - UT Share* *UT Share supports UTS, UTA, UTPB, UTEP, UTSA, and UTT	Financial statement audit
U. T. Arlington (UTA)	UT Share (Questionnaire) Campus Solutions	Financial statement audit
U. T. Permian Basin (UTPB)	UT Share(Questionnaire) Campus Solutions	Financial statement audit Student financial aid compliance audit
U. T. El Paso (UTEP)	UT Share (Questionnaire)	Financial statement audit
U. T. San Antonio (UTSA)	UT Share (Questionnaire) Banner	Financial statement audit Student financial aid compliance audit
U. T. Tyler (UTT)	UT Share (Questionnaire)	Financial statement audit

U. T. System IT Audit Scope (continued)

Institution	Design & Implementation Systems	Audit Engagements
U. T. Health Science Center – Houston	PeopleSoft (FMS) GE Centricity Business / IDX Campus Solutions	Financial statement audit Student financial aid compliance audit
U. T. Health Science Center – San Antonio	PeopleSoft (FIN & HCM)	Financial statement audit
U. T. Rio Grande Valley	PeopleSoft (FIN & HR) Banner	Financial statement audit Student financial aid compliance audit
U. T. Health Science Center – Tyler	PeopleSoft (FIN & HCM) Meditech (Bar, PBR, and MRI) (Questionnaire)	Financial statement audit

Summary of Uncorrected Misstatements

Our audit of the consolidated financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement, whether caused by error or fraud. There were no material misstatements that were brought to the attention of management as a result of our audit procedures. However, we included herein uncorrected misstatements that we presented to management during the current year audit engagement that were determined by management to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

U. T. System Administration

- We noted in our testing of the fair value of endowment land that one tract of land was valued using a third-party appraisal; however, the appraisal did not take into consideration the fact the land had a road which split the parcel as well as restricted zoning of the property for educational purposes. The result was an overstatement in the fair value of the property of approximately \$13.7 million.

Summary of Uncorrected Misstatements (continued)

U. T. M. D. Anderson Cancer Center

- We proposed a reclassification of the Physicians Referral Service Supplemental Retirement / Retirement Benefit Deferred Compensation Plan (PRS) from a long-term asset and liability to short-term asset and liability in the amount of approximately \$59 million. A portion of the liability will be paid in the next fiscal year. There was a similar passed adjustment in the prior year.
- We proposed a correction of an unreconciled balance between EPIC and Peoplesoft in the amount of \$14.3 million. The net impact of this error is an understatement of patient accounts receivables and an overstatement of bad debt expense for FY 2019. This will be corrected in FY 2020.

U. T. Austin

- There was no year-end accrual for non-payroll operating expenses incurred in FY 2019 but paid for in FY 2020. Our estimate of this cutoff error, based on an average of these monthly expenses, was approximately \$19.4 million for FY 2019 and approximately \$20.3 million for FY 2018. Additionally, there was one purchase of computer equipment in FY 2019 for approximately \$58 million that was not properly accrued; therefore, both accounts payable and capital assets were understated.

Summary of Uncorrected Misstatements (continued)

U. T. Health Science Center – Houston

- We proposed an adjustment to remove the reserve associated with the incentive programs DSRIP and NAIP in the amount of \$97.8 million as this liability was not supported under GAAP. To be supported under GAAP, any potential pay back to the State for these programs would have to be reasonably probable.
- We proposed an adjustment to reclass \$100 million from noncurrent liabilities to current liabilities in order to be consistent with short term/long term presentation of assets held for others.

U. T. Health Science Center – San Antonio

- We proposed an adjustment to reclassify capital assets, recorded net within other assets, into gross capital assets and accumulated depreciation in the amount of \$12.7 million.

Summary of Uncorrected Misstatements for the Year Ended August 31, 2019 (in thousands)

	<u>Total Assets and Deferred Outflows</u>	<u>Total Liabilities and Deferred Inflows</u>	<u>Beginning Net Position</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Nonoperating Revenues & Expenses, and Other Changes</u>	<u>Ending Net Position</u>
Total Uncorrected Adjustments- Effect	\$86,236	\$(7,258)	-	\$(112,081)	\$19,425	\$13,679	\$(78,977)
Original Total Amounts	84,691,828	(38,829,213)	(45,390,788)	(16,049,319)	20,284,778	(4,707,286)	(45,862,616)
Total Amounts, if adjusted	84,778,064	(38,836,471)	(45,390,788)	(16,161,401)	20,304,203	(4,693,607)	(45,491,593)
% Change	0.10%	0.02%	0.00%	0.70%	0.10%	-0.29%	0.17%

Control-Related Matters

- A *deficiency in internal control* over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.
- A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- **A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.**
- No material weaknesses were identified at the Systemwide level.

Control-Related Matters (continued)

We have identified a significant deficiency in internal controls over financial reporting related to segregation of duties over recording of journal entries for the UT Share system.

Issue: During pre-testing procedures performed by UT Share in preparation for the Peoplesoft 9.2 upgrade, the functionality requiring segregation of duties for journal entry posting was disabled by the lead business analyst. This configuration is a global radio button where the functionality is either "on" or "off."

This functionality which prevents requesters from approving their entries was not operating within UT Share for approximately four months in FY 2019 (Mid-March through Mid-July). Upon notification of this issue, the U. T. System Administration Office of Shared Information Services corrected the UT Share configuration within 1.5 days. While the resolution of this issue was swift, financial personnel at the institutions that utilize UT Share were not notified of the potential exposure so that they could perform due diligence procedures to review entries posted during the year that did not have proper segregation of duties.

In total over 200 entries (for 5 of the 6 UT Share institutions) were recorded during Mid-March through Mid-July that did not have proper segregation of duties.

Recommendation: Ensure controls are in place at the UT Share-level involving system configuration changes. Controls should include development of test plans to detect unintended impacts to system functionality such as automated controls. Periodic reviews of the configurations should also be robust to detect an unintentional change. Further, notification about such issues should be communicated to proper UT Share institutional personnel so it can be determined if the internal controls over financial reporting were compromised as a result of system changes.

Appendix A: Auditing Management's Estimates

Accounting Estimates—Patient Accounts Receivable—Valuation

Management’s Methodology

- During FY 2019 and FY 2018, management at U. T. health institutions applied a consistent approach to estimating the allowance for doubtful accounts and contractual allowances.
- Management develops an estimate of historical and expected net collections, business and economic conditions, and other collection indicators.
- Management performs reviews of historical collections and write-offs. Adverse changes in business office operations, payor mix, and economic conditions could affect the collection of accounts receivable, cash flows, and results of operations.

Audit Procedures

- Tested the adequacy of certain U. T. institutions’ methodologies and procedures used to establish the valuation reserves for patient accounts receivable and evaluation key assumptions used by management.
- For institutions with significant receivable balances, we computed an independent estimate of the allowance for contractals and bad debt for each significant financial class of patient receivable after independently testing the collection percentages.
- Performed testing of the adequacy of doubtful accounts allowances through the review of collections and aging statistics and a look-back analysis.
- Tested for compliance with GASB guidance on the presentation in the financial statements of allowance for doubtful accounts.

Accounting Estimates—Fair Value of PUF Lands

Management’s Methodology

- Management has a consistent methodology from FY 2018 to FY 2019 as it relates to the reserve analysis. Management engages a third-party specialist to develop the reserves for the three categories of reserves (1) proved; (2) possible and (3) probable. Management and the specialists determine reasonable assumptions related to discount rates/factors, reserve adjustment factors, and overall valuation methodology.
- Management with University Lands compiles data from producers related to production and royalty percentages for submission to the third-party specialist.
- Management ensures the proper disclosures are in the Annual Financial Reports as it relates to the fair value of the PUF lands.

Audit Procedures

- Read the reserve study with the assistance of Deloitte fair value and oil and gas specialists, and tested various assumptions as it relates to discount rates, reserve adjustment factors and valuation techniques.
- Performed testing on the accuracy and completeness of the data submitted to the third-party specialists.
- Performed a lookback analysis on current year production estimates used in the reserve methodology.

Accounting Estimates—Teachers’ Retirement System Plan

Management’s Methodology

- The Teacher Retirement System of Texas (TRS) pension plan is a state-wide, multi-employer cost sharing plan. Using external actuaries, TRS calculates the total plan liability for the plan. Participating employers record their proportionate share of the NPL, pension expense, and related deferred inflows and outflows of resources.
- The State Auditor’s Office (SAO) audits the TRS plan and the proportionate share, and related net pension liability, of each employer. The SAO also audits retiree and active census data.
- U. T. System is responsible for tracking and accurately reporting census data on active participants to TRS and also for contributing the appropriate amounts to TRS.
- Management ensures the proper disclosures are in the Annual Financial Reports as it relates to the plan and the required supplementary information.

Audit Procedures

- Read the TRS actuarial study with the assistance of Deloitte actuaries.
- Recalculated the proportionate share of U. T. System’s and the stand-alone entities as it relates to net pension liability, deferred inflows, outflows, annual amortization and pension expense.
- Read the disclosures and required supplementary information in the Annual Financial Reports to determine compliance with generally accepted accounting principles.

Accounting Estimates—Other Postemployment Benefit Plan

Management’s Methodology

- U. T. System’s other postemployment benefit (OPEB) plan is a single-employer plan. Management engages an external actuary to determine the liability related to the OPEB plan.
- Management within the Office of Employee Benefits (OEB) is responsible for tracking and accurately reporting census data of participants to the actuary. This data is submitted by the individual U. T. institutions to the OEB.
- Management ensures the proper disclosures and required supplementary information for the plan are in the Annual Financial Report.

Audit Procedures

- Obtained the actuarial study with the assistance of Deloitte actuaries and tested various assumptions as it related to discount rates, investment returns, and mortality assumptions.
 - Evaluated the disclosures and required supplementary information in the Annual Financial Reports to determine compliance with generally accepted accounting principles.
-

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2. **U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration**

RECOMMENDATION

The proposed Consent Agenda items assigned to this Committee are [Items 4 - 22](#).

3. U. T. System: Financial Status Presentation and Monthly Financial Report

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Financial Status Presentation, the highlights of which are set forth in the PowerPoint on the following pages and the November Monthly Financial Report, which follows the PowerPoint. The monthly financial report represents the consolidated and individual operating detail of the U. T. institutions.

U. T. System

*Fiscal Year-to-Date Actuals through November 2019
and
Budget to Actual Analysis*

Dr. Scott Kelley
Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents' Meeting
Finance and Planning Committee
February 2020

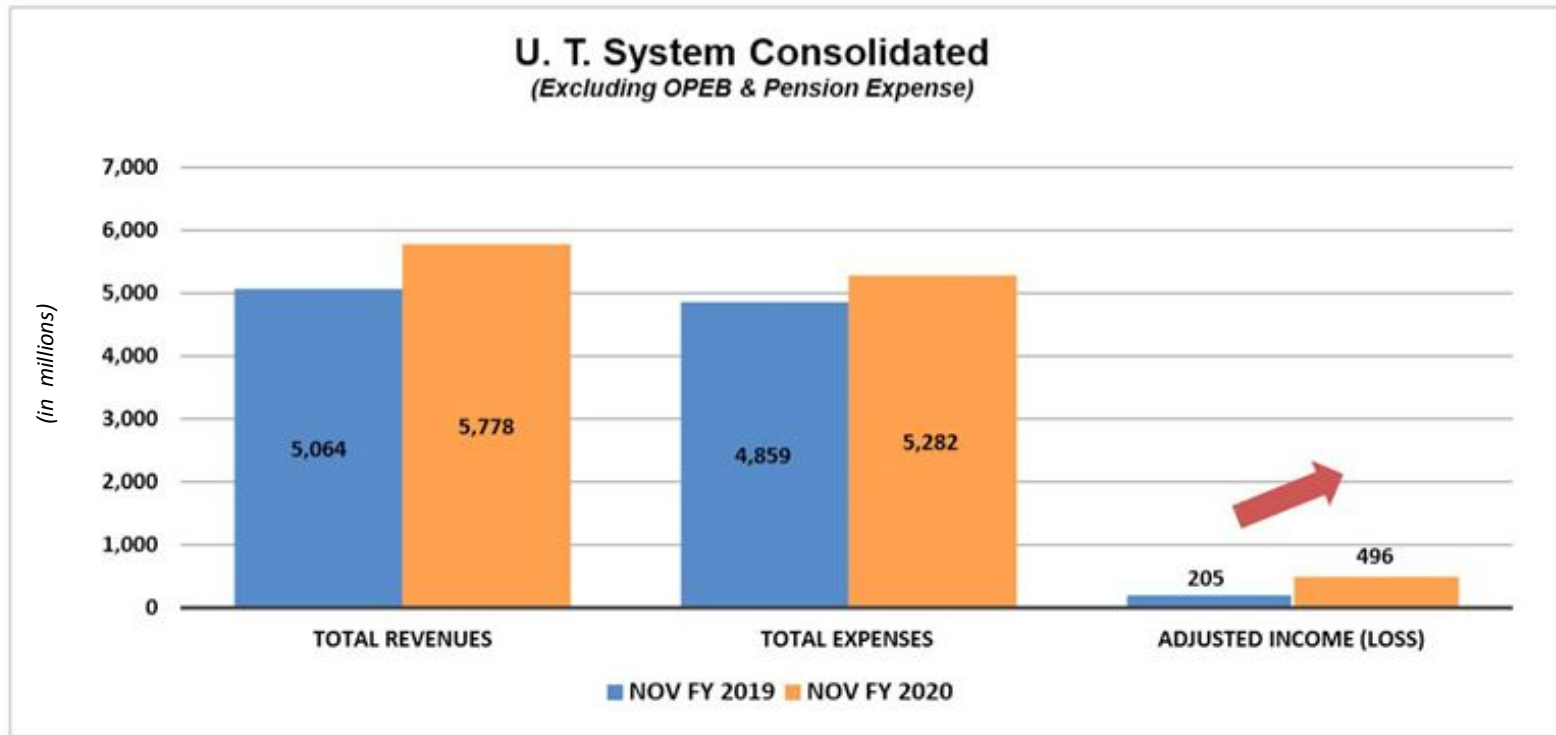


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U. T. System Consolidated Landscape

For the Period Ending November 30, 2019

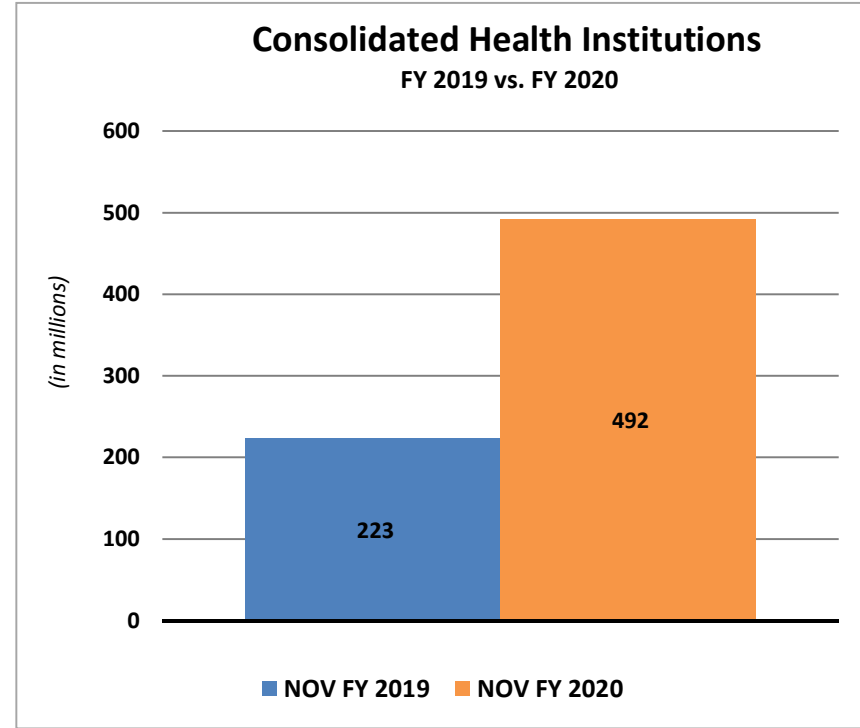
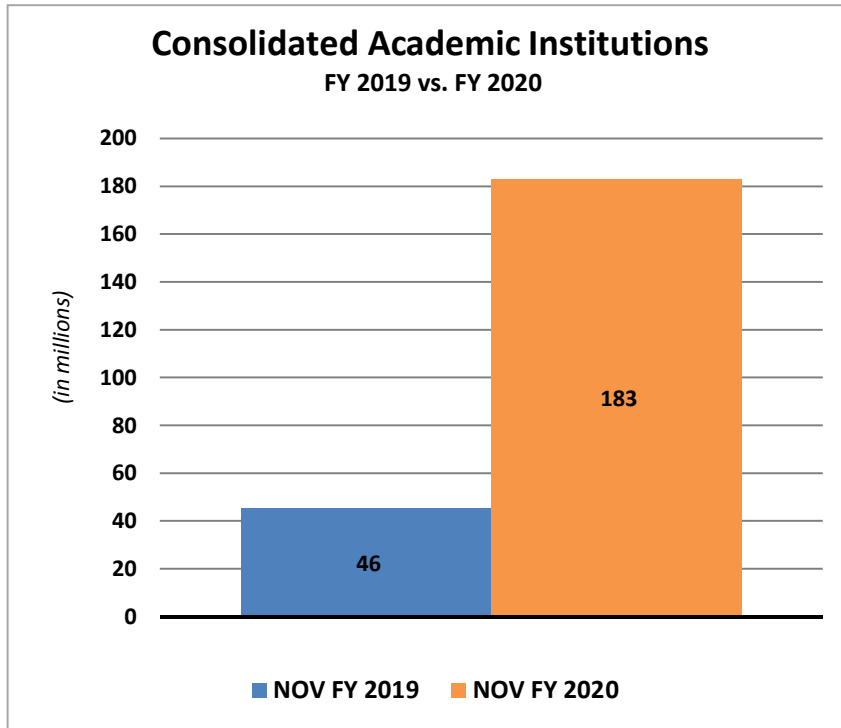


Source: November 2019 Monthly Financial Report



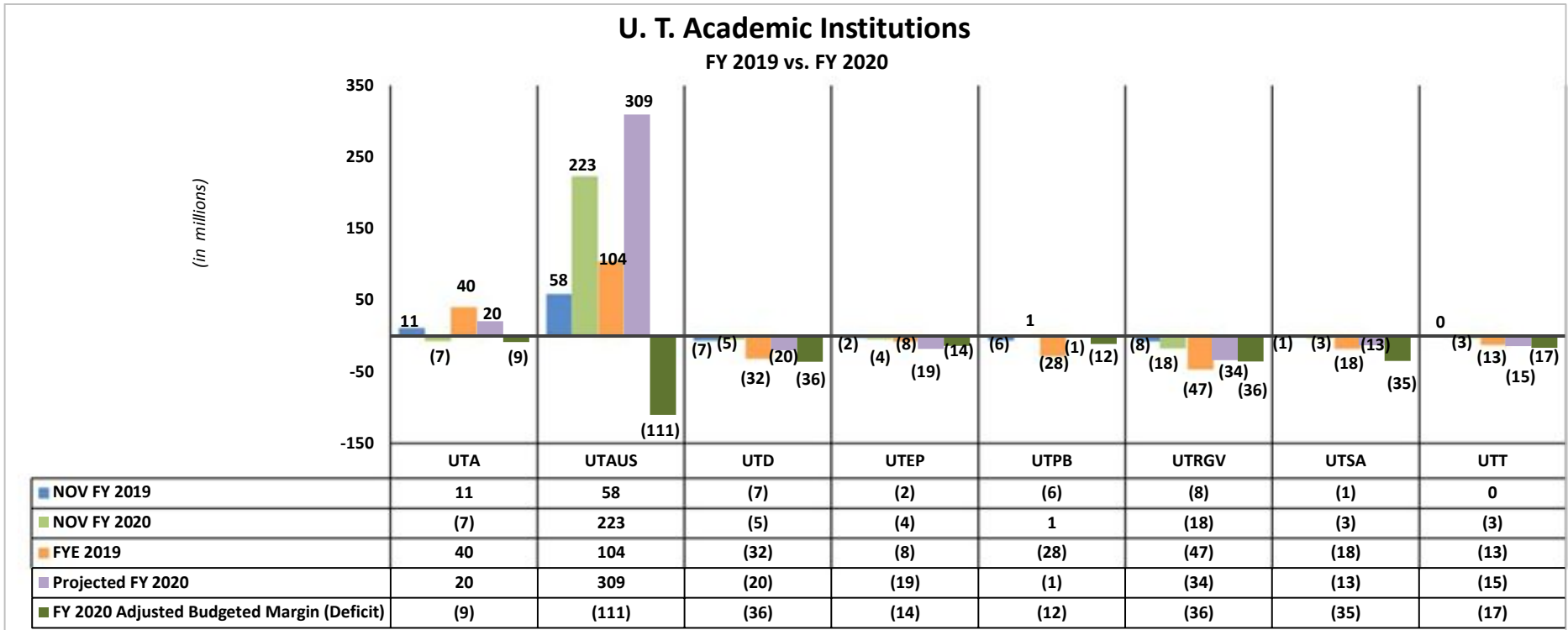
Consolidated Adjusted Income (Loss) Comparison

For the Period Ending November 30, 2019



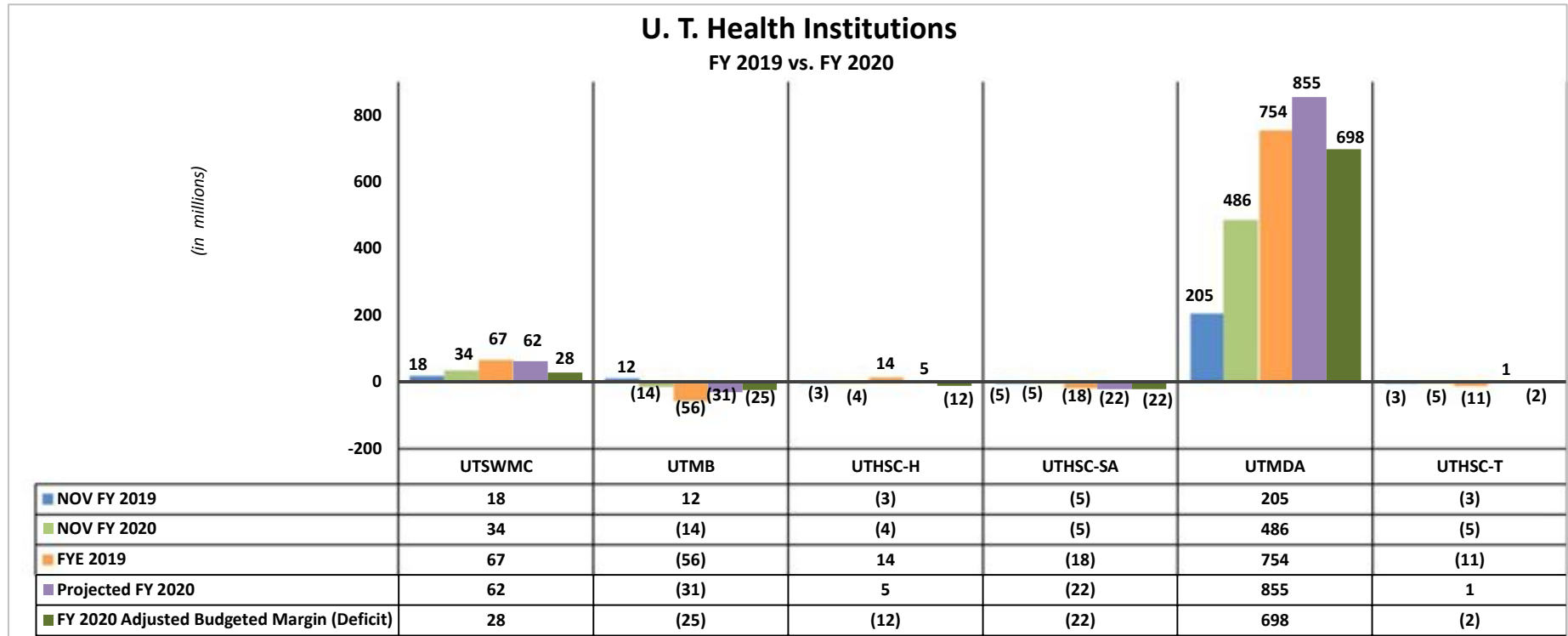
Academic Adjusted Income (Loss) Comparison

For the Period Ending November 30, 2019



Health Adjusted Income (Loss) Comparison

For the Period Ending November 30, 2019



Source: November 2019 Monthly Financial Report



Systemwide Operations Financial Summary

	FY 2020 Budget	FTEs	FYTD Actual (November 2019)	% of Budget
U. T. System Administration (AUF)	\$ 52,270,219	228.2	\$ 11,661,758	22%
Direct Campus Support (AUF)	42,557,676	113.0	14,175,253	33%
Other Operations Funded with AUF Reserves	520,800	-	601,254	115%
Service Departments and Other Non-AUF*	62,652,932	225.4	15,977,096	26%
Total – U. T. System Administration and Campus Support	\$ 158,001,627	566.6	\$ 42,415,360	27%

** The Board of Regents has approved the budget and FTEs related to University Lands. 2/3 of the overall University Lands budget and November YTD actuals are represented in the above amounts. The Board of Regents has also approved the portion (1/3 of the overall University Lands budget) that supports Texas A&M University.*



**THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF THE CONTROLLER**

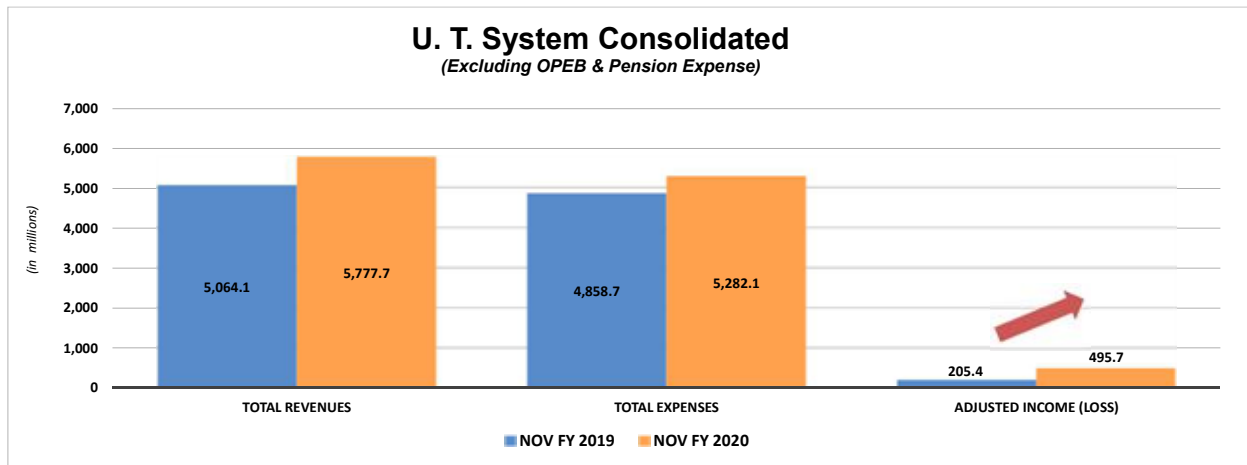
MONTHLY FINANCIAL REPORT
(unaudited)

NOVEMBER 2019



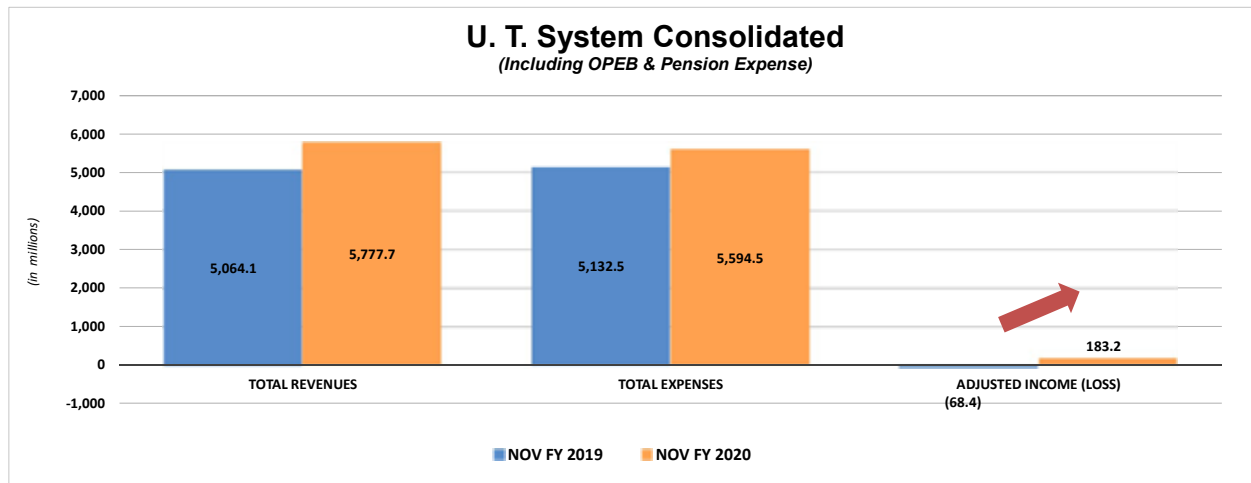
210 West Seventh Street
Austin, Texas 78701
512.499.4527
www.utsystem.edu/cont

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

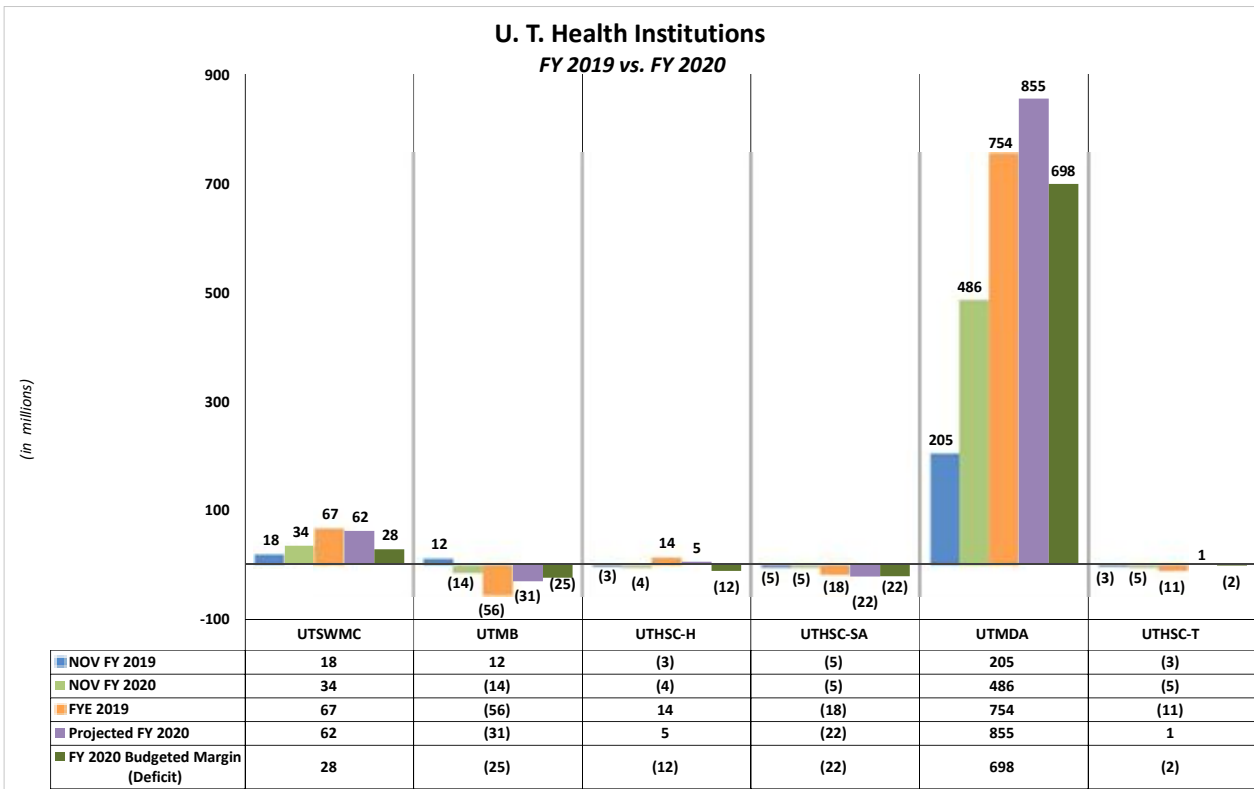
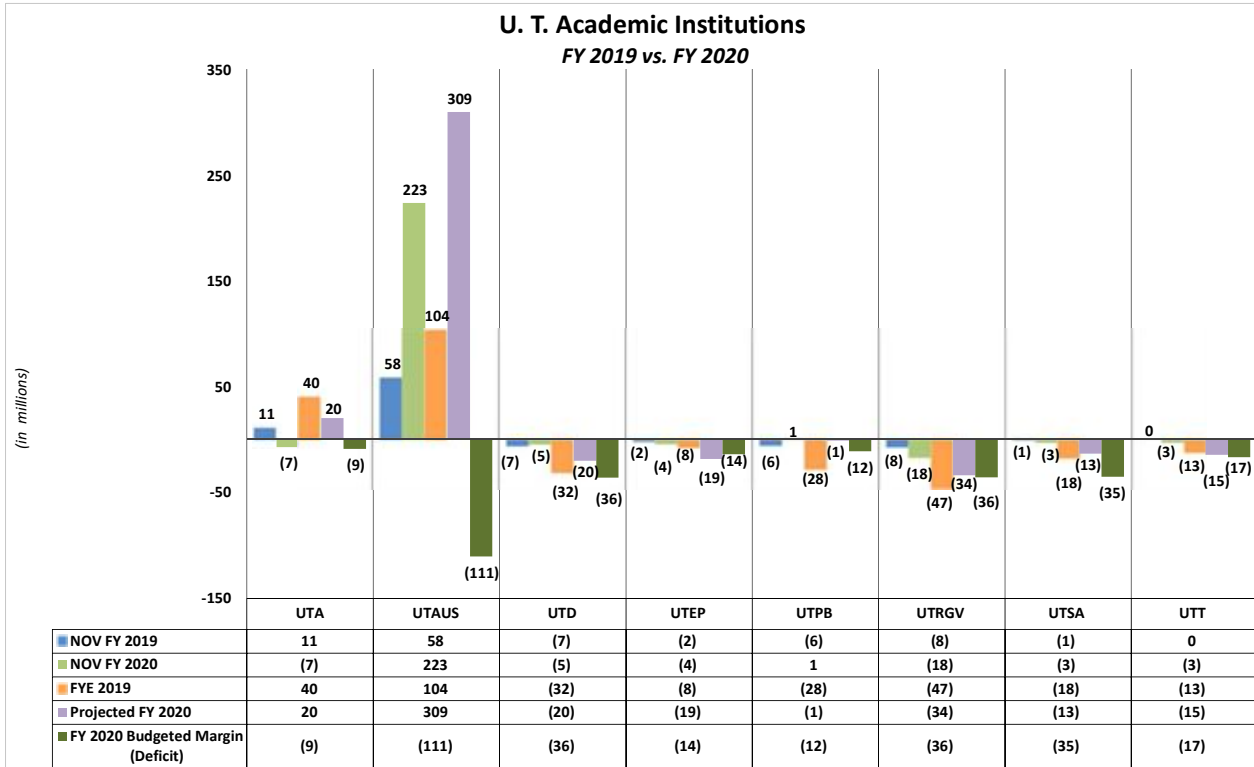


Excluding other postemployment benefits (OPEB) and pension expense, *U. T. System Consolidated* shows year-to-date adjusted income of \$495.7 million, an increase of \$290.2 million (141%) from the prior year. The increase was primarily due to the following: an increase in net sales and services of hospitals as a result of an increase in volume and clinical productivity; and an increase in net investment income primarily due to *U. T. M. D. Anderson Cancer Center* receiving \$300 million from Takeda Pharmaceutical for a new agreement.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 2,163.2	2,378.6	215.3	9,687.7
Sponsored Programs/Nonexchange Sponsored Programs	881.5	1,011.2	129.7	4,138.5
State Appropriations	575.0	555.7	(19.2)	2,227.4
Net Tuition and Fees	463.4	493.5	30.1	1,952.5
Auxiliary Revenues/Sales & Services of Educational Activities	376.2	380.6	4.4	1,281.7
Net Investment Income	400.4	608.1	207.6	1,227.8
Other Operating Revenues/Gift Contributions for Operations	204.5	350.0	145.5	1,034.0
Total Revenues	5,064.1	5,777.7	713.6	21,549.6
Salaries and Wages/Payroll Related Costs	2,893.4	3,136.0	242.6	12,302.7
Materials and Supplies/Cost of Goods Sold	604.5	702.5	98.0	2,675.8
Depreciation and Amortization	367.6	387.3	19.7	1,573.4
Other Contracted Services/Professional Fees & Services	312.2	361.5	49.3	1,493.5
All Other Operating Expenses	681.1	694.8	13.7	2,771.1
Total Expenses (Excluding OPEB & Pension Exp)	\$ 4,858.7	5,282.1	423.3	20,816.5
Adjusted Income (Loss) Excluding OPEB & Pension Exp	205.4	495.7	290.2	733.2
OPEB Expense	210.8	166.2	(44.6)	664.8
Pension Expense	63.0	146.2	83.2	584.8
Adjusted Income (Loss)	(68.4)	183.2	251.6	(516.4)
Adjusted Income (Loss) Excluding Depr & Amort Exp	299.2	570.5	271.3	1,057.0



**Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending November 30, 2019**



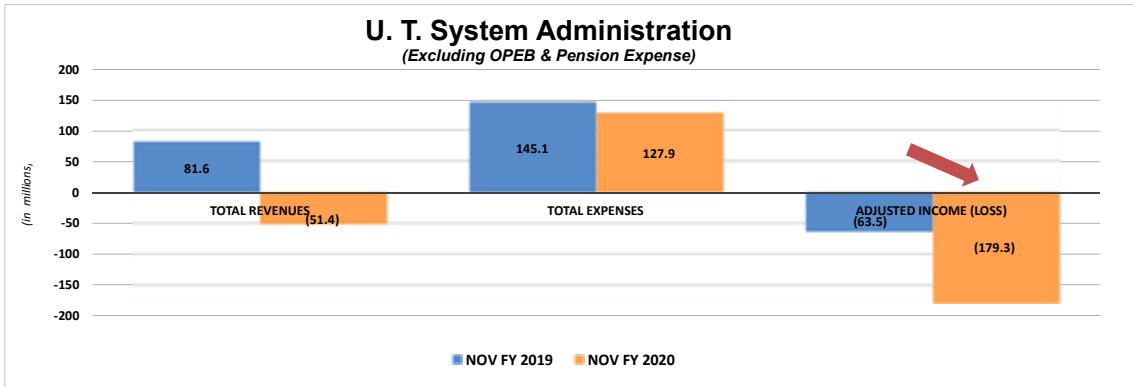
Monthly Financial Report
Comparison of Adjusted Income (Loss)
For the Period Ending November 30, 2019

Executive Summary of Adjusted Income (Loss)

	November FYTD 2019 (millions)	November FYTD 2020 (millions)	Variance %	Comments
U. T. System Administration (excluding OPEB & Pension Expense)	\$ (63.5)	(179.3)	-182%	Decrease in Net Investment Income Projected loss of (\$362.7) million for the FY
U. T. Arlington	10.9	(7.3)	-167%	Increase in Other Contracted Services, Salaries & Wages, Payroll Related Projected income of \$20.1 million for the FY
U. T. Austin	58.2	223.4	284%	Increase in Gifts for Operations, Sponsored Programs, Net Investment Income, Available University Fund (AUF) transfer Projected income of \$309.3 million for the FY
U. T. Dallas	(6.5)	(5.1)	22%	Increase in Sponsored Programs, Sales & Services of Educational Activities, Nonexchange Sponsored Programs Projected loss of (\$20.3) million for the FY
U. T. El Paso	(2.3)	(4.5)	-94%	Increase in Salaries and Wages, Payroll Related Decrease in Net Auxiliary Enterprises revenue Projected loss of (\$18.6) million for the FY
U. T. Permian Basin	(6.0)	0.5	109%	Increase in Net Tuition & Fees and Net Auxiliary Enterprises revenue, prior year understated Projected loss of (\$1.2) million for the FY
U. T. Rio Grande Valley	(7.7)	(17.7)	-132%	Increase in Salaries & Wages, Payroll Related Decrease in Sponsored Programs, Nonexchange Sponsored Programs Projected loss of (\$34.1) million for the FY
U. T. San Antonio	(1.1)	(3.3)	-198%	Increase in Salaries & Wages, Payroll Related Projected loss of (\$13.4) million for the FY
U. T. Tyler	0.0	(3.2)	-8,054%	Increase in Salaries & Wages, Payroll Related Projected loss of (\$14.6) million for the FY
Southwestern	18.4	34.4	87%	Increase in Sales & Services of Hospitals Projected income of \$61.6 million for the FY
UTMB	11.5	(14.3)	-224%	Increase in Salaries & Wages, Payroll Related, Materials & Supplies, Depreciation & Amortization Projected loss of (\$30.9) million
UTHSC-Houston	(3.2)	(4.5)	-38%	Increase in Salaries & Wages, Payroll Related Projected income of \$5.0 million for the FY
UTHSC-San Antonio	(4.9)	(4.6)	7%	Increase in Sponsored Programs, Clinical Revenue Projected loss of (\$22.3) million for the FY
M. D. Anderson	205.0	485.7	137%	Increase in Net Investment Income, Sales & Services of Hospitals Projected income of \$854.6 million for the FY
UTHSC-Tyler	(3.4)	(4.6)	-36%	Increase in Materials & Supplies, Salaries & Wages, Payroll Related Projected income of \$0.6 million for the FY
Total Adjusted Income (Loss)	\$ 205.4	495.7	141%	

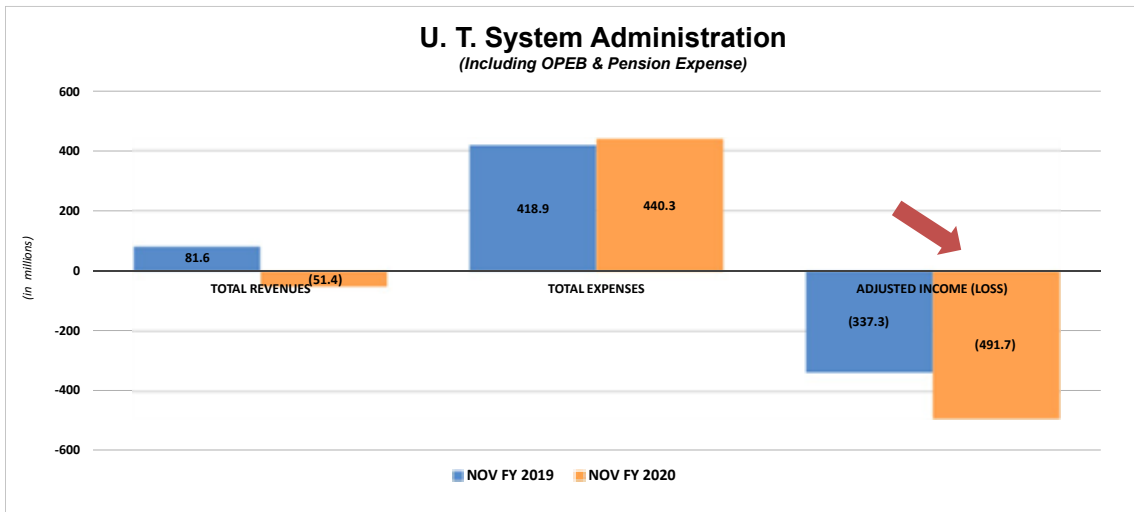
* For additional details on the variances, please see pages 4 through 19.

Monthly Financial Report
Comparison of Operating Results, Margin and Projected Year-End
For the Period Ending November 30, 2019



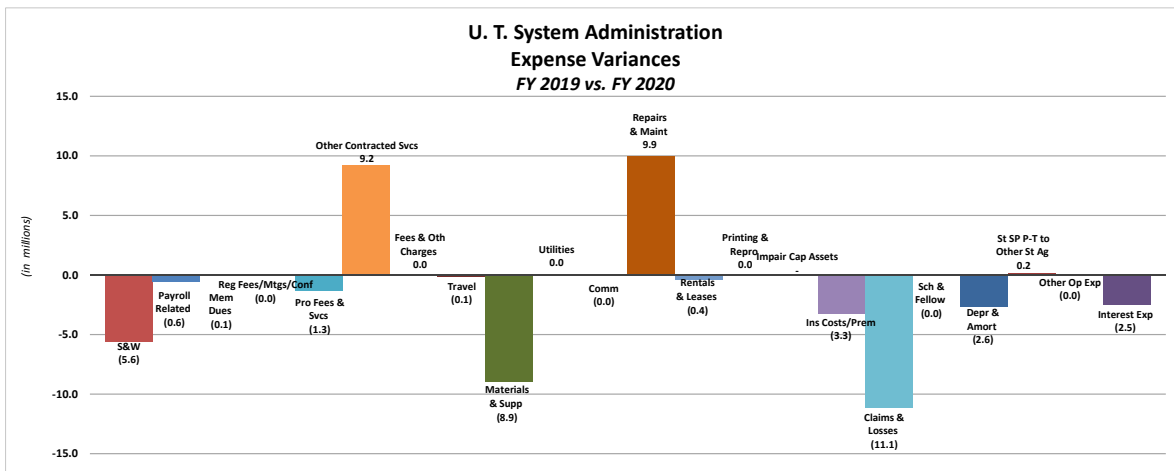
Excluding OPEB and pension expense, *U. T. System Administration* incurred a year-to-date adjusted loss of \$179.3 million, an increase in adjusted loss of \$115.8 million (182%) from the prior year. The increase was primarily due to a decrease in net investment income as a result of a decrease in Permanent University Fund (PUF) mineral lease bonus sales, oil and gas royalties, PUF investment income, and Available University Fund (AUF) surface income, as well as increases in the Long Term Fund (LTF) distribution and LTF investment expenses. The most current projection, excluding OPEB and pension expense, reflects a loss of \$362.7 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 1.0	13.9	12.9	40.3
State Appropriations	0.8	1.0	0.2	3.9
Auxiliary Revenues/Sales & Services of Educational Activities	8.0	2.0	(6.1)	8.0
Net Investment Income/Available University Fund (AUF)	66.4	(74.6)	(141.0)	(298.4)
Other Operating Revenues/Gift Contributions for Operations	5.4	6.4	1.0	25.2
Total Revenues	81.6	(51.4)	(133.0)	(221.0)
Salaries and Wages/Payroll Related Costs	25.2	19.1	(6.1)	(226.1)
Materials and Supplies/Cost of Goods Sold	13.9	4.9	(8.9)	(22.5)
Depreciation and Amortization	6.7	4.1	(2.6)	16.4
Other Contracted Services/Professional Fees & Services	6.5	14.4	7.9	33.0
All Other Operating Expenses	92.8	85.4	(7.5)	341.0
Total Expenses (Excluding OPEB & Pension Exp)	\$ 145.1	127.9	(17.2)	141.8
Adjusted Income (Loss) Excluding OPEB & Pension Exp	(63.5)	(179.3)	(115.8)	(362.7)
OPEB Expense	210.8	166.2	(44.6)	664.8
Pension Expense	63.0	146.2	83.2	584.8
Adjusted Income (Loss)	(337.3)	(491.7)	(154.4)	(1,612.4)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(330.6)	(487.6)	(157.0)	(1,596.0)



Monthly Financial Report Detailed Expense Break-out for U. T. System Administration For the Period Ending November 30, 2019

(in millions)	November YTD FY 2019	November YTD FY 2020	Actual Year-End FY 2019	Annual Projected FY 2020
Salaries and Wages	\$ 20.8	15.3	57.9	61.1
Payroll Related Costs	4.3	3.8	(306.4) *	(287.2) *
Membership Dues	0.3	0.2	0.5	0.8
Registration Fees, Meetings, Conferences	0.1	0.1	0.4	0.3
Professional Fees and Services	3.8	2.5	15.4	10.0
Other Contracted Services	2.7	12.0	25.7	23.0
Fees and Other Charges	0.0	0.0	0.1	0.1
Travel	0.5	0.4	1.5	1.4
Materials and Supplies	13.9	4.9	11.4	(22.5)
Utilities	0.1	0.1	0.4	0.6
Communications	0.1	0.1	3.6	0.3
Repairs and Maintenance	3.1	13.0	5.8	51.9
Rentals and Leases	1.2	0.8	2.8	3.2
Printing and Reproduction	0.1	0.1	0.3	0.2
Impairment of Capital Assets	-	-	25.8	-
Insurance Costs/Premiums	24.9	21.6	10.5	86.3
Claims and Losses	52.0	40.9	65.5	163.6
Scholarships and Fellowships	0.1	0.1	1.5	0.3
Depreciation and Amortization	6.7	4.1	23.8	16.4
State Sponsored Program Pass-Through to Other State Agencies	0.9	1.1	4.4	3.8
Other Operating Expenses	0.4	0.3	1.7	1.3
Interest Expense	9.2	6.7	94.3	26.9
Total Expenses (Excluding OPEB & Pension Expense)	145.1	127.9	46.7	141.8
OPEB Expense	210.8	166.2	664.8	664.8
Pension Expense	63.0	146.2	584.8	584.8
Total Expenses (Including OPEB & Pension Expense)	\$ 418.9	440.3	1,296.4	1,391.4



Brief explanations for U. T. System Administration's largest expense variances are provided below:

Salaries & Wages – decrease of \$5.6 million due to a change in methodology of elimination entries, and a decrease in the Office of Facilities Planning and Construction.

***Payroll Related Costs** - the negative payroll related costs at year-end relate to the pension entry to defer contributions made after the measurement date.

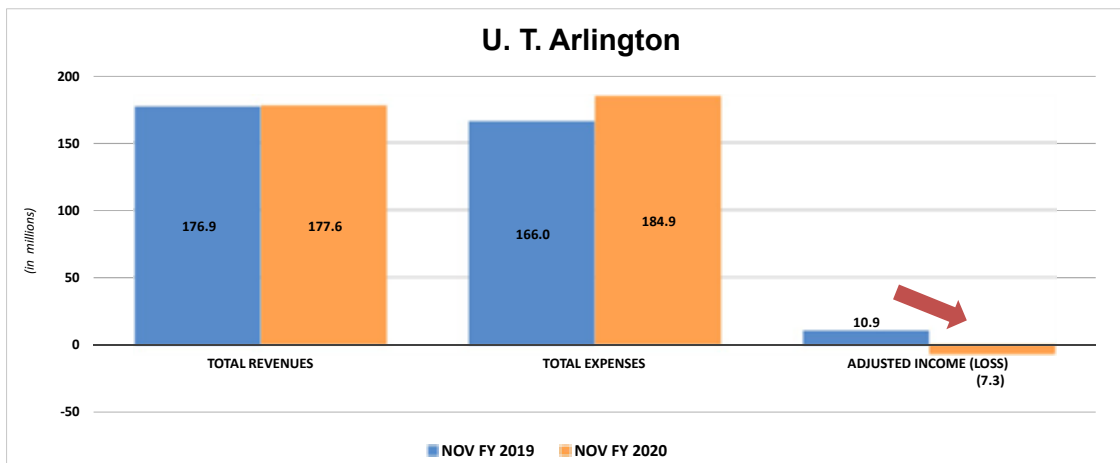
Other Contracted Services - increase of \$9.2 million due to the timing of the AUF Digital Library Support payment to U. T. Austin, and an increase in Clinical Data Network expenses.

Materials and Supplies – decrease of \$8.9 million due to Oracle Maintenance Agreement software licenses reclassified to repairs and maintenance.

Repairs and Maintenance – increase of \$9.9 million due to Oracle Maintenance Agreement software licenses reclassified from materials and supplies to repairs and maintenance, and expenses related to the new Office of Employee Benefits Eligibility System.

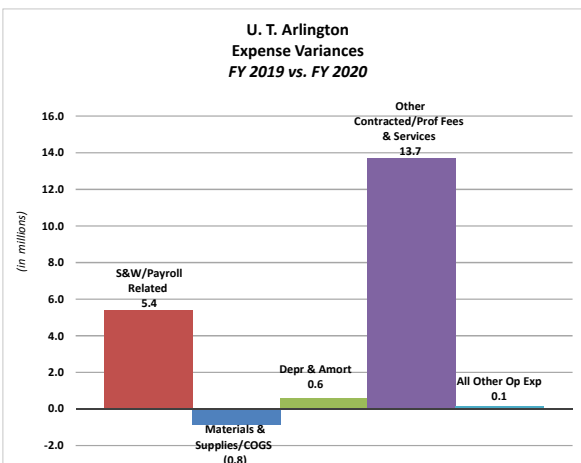
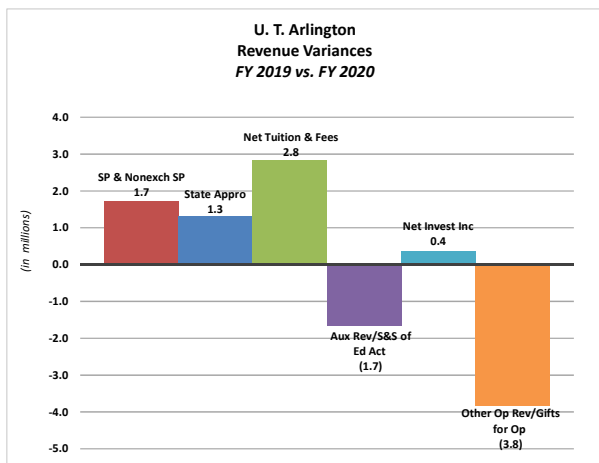
Claims and Losses - Higher Medical/Dental Self-Insurance Plan premiums to cover expenses led to a decrease of \$11.1 million in claims and losses compared to the prior year.

Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

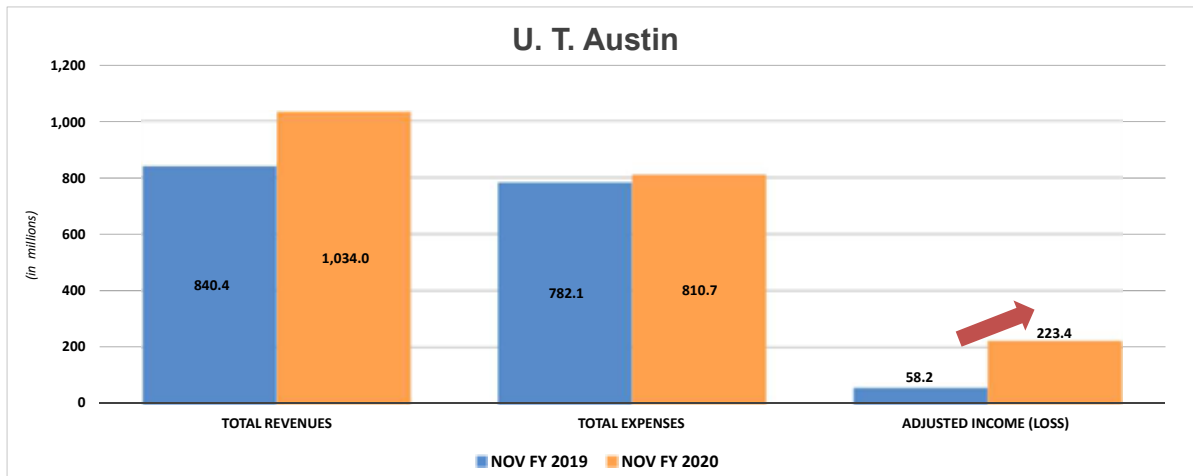


U. T. Arlington incurred a year-to-date adjusted loss of \$7.3 million, a decrease of \$18.2 million (167%) from the prior year. The decrease was primarily attributable to an increase in other contracted services due to the timing of Academic Partnership and Instructional Connection payments. An increase in salaries and wages and payroll related costs due to merit increases also contributed to the loss. The most current projection received from *U. T. Arlington* reflects income of \$20.1 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 33.8	35.5	1.7	147.6
State Appropriations	33.2	34.5	1.3	138.0
Net Tuition and Fees	79.1	81.9	2.8	331.5
Auxiliary Revenues/Sales & Services of Educational Activities	19.7	18.0	(1.7)	83.7
Net Investment Income	5.4	5.7	0.4	21.2
Other Operating Revenues/Gift Contributions for Operations	5.8	2.0	(3.8)	16.1
Total Revenues	176.9	177.6	0.7	738.0
Salaries and Wages/Payroll Related Costs	94.8	100.2	5.4	402.7
Materials and Supplies/Cost of Goods Sold	11.4	10.6	(0.8)	35.6
Depreciation and Amortization	13.7	14.3	0.6	55.9
Other Contracted Services/Professional Fees & Services	14.0	27.7	13.7	92.6
All Other Operating Expenses	32.0	32.1	0.1	131.0
Total Expenses	\$ 166.0	184.9	19.0	717.8
Adjusted Income (Loss)	10.9	(7.3)	(18.2)	20.1
Adjusted Income (Loss) Excluding Depr & Amort Exp	24.7	7.0	(17.7)	76.1

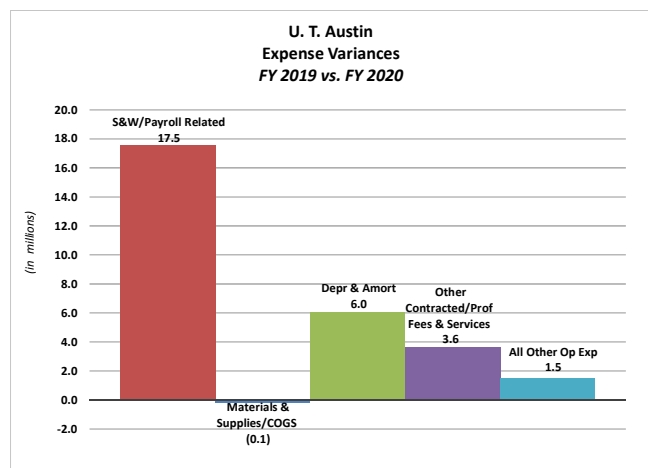
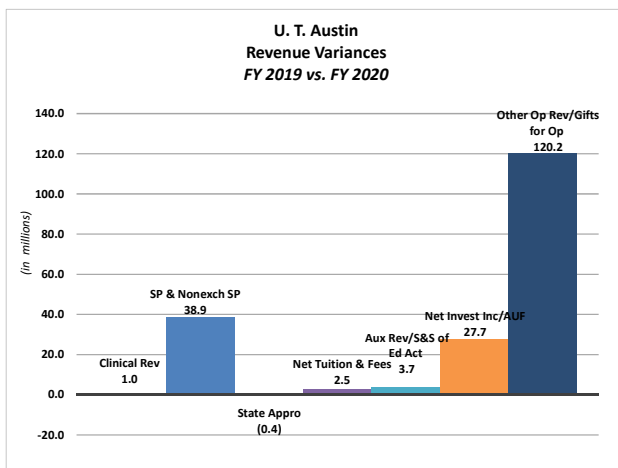


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

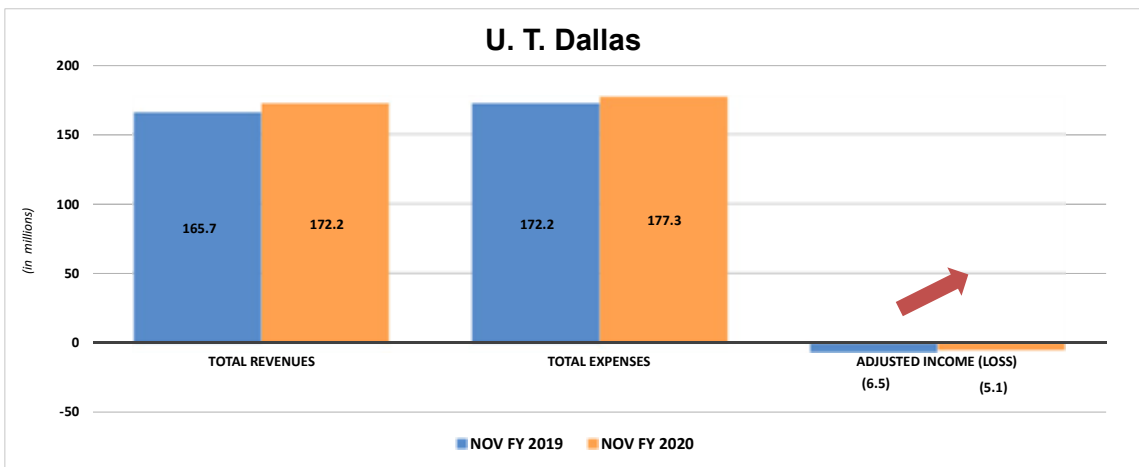


U. T. Austin reported year-to-date adjusted income of \$223.4 million, an increase of \$165.2 million (284%) from the prior year. The increase was primarily due to the following: an increase in gift contributions for operations as a result of a \$130 million gift from the Moody Foundation; an increase in sponsored programs revenue due to the receipt of funding for the Austin State Hospital project with no such comparable funds received in the prior year; an increase in net investment income; and an increase in the amount of the transfer from the Available University Fund. The most current projection received from *U. T. Austin* reflects income of \$309.3 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 1.0	2.0	1.0	11.7
Sponsored Programs/Nonexchange Sponsored Programs	164.3	203.2	38.9	769.5
State Appropriations	89.1	88.7	(0.4)	354.6
Net Tuition and Fees	130.0	132.5	2.5	530.0
Auxiliary Revenues/Sales & Services of Educational Activities	229.2	232.9	3.7	708.4
Net Investment Income/Available University Fund (AUF)	171.2	199.0	27.7	720.1
Other Operating Revenues/Gift Contributions for Operations	55.5	175.8	120.2	322.9
Total Revenues	840.4	1,034.0	193.7	3,417.2
Salaries and Wages/Payroll Related Costs	446.8	464.3	17.5	1,779.3
Materials and Supplies/Cost of Goods Sold	42.4	42.3	(0.1)	134.1
Depreciation and Amortization	78.5	84.5	6.0	338.0
Other Contracted Services/Professional Fees & Services	50.2	53.8	3.6	232.7
All Other Operating Expenses	164.2	165.7	1.5	623.8
Total Expenses	\$ 782.1	810.7	28.5	3,107.9
Adjusted Income (Loss)	58.2	223.4	165.2	309.3
Adjusted Income (Loss) Excluding Depr & Amort Exp	136.7	307.9	171.2	647.3

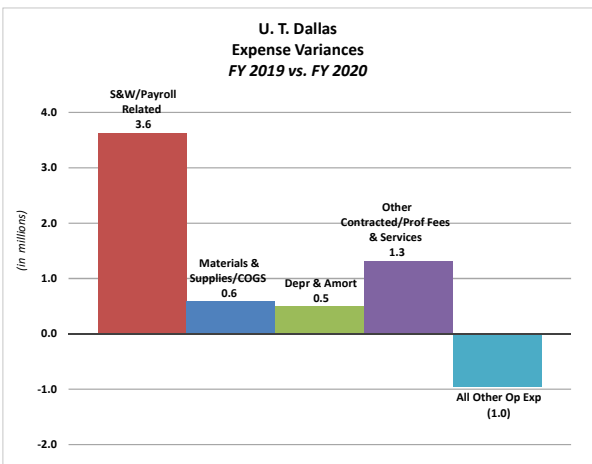
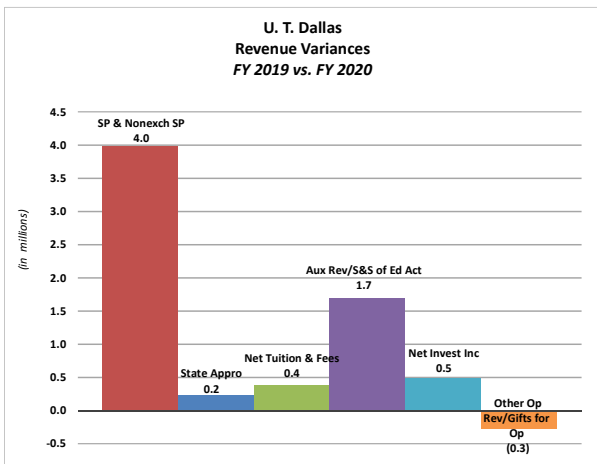


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

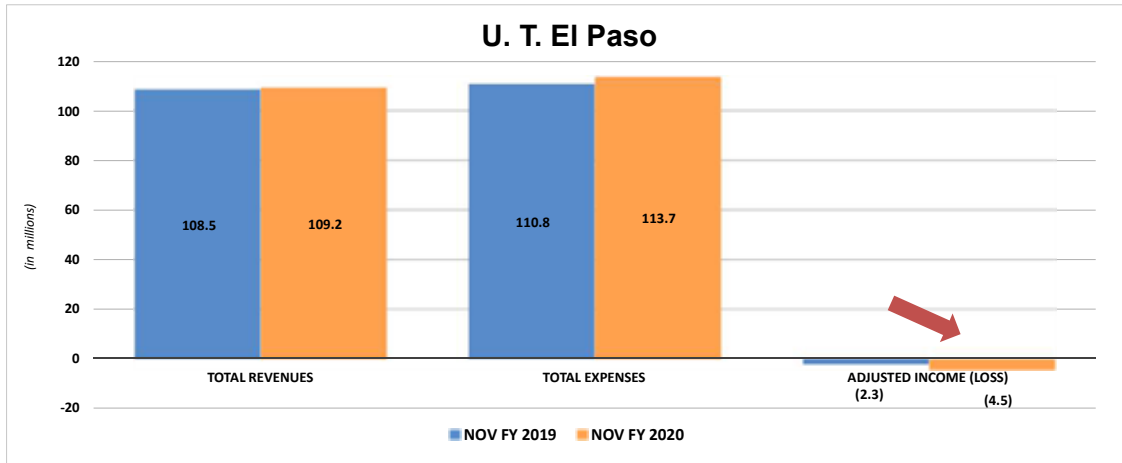


U. T. Dallas incurred a year-to-date adjusted loss of \$5.1 million, a decrease in adjusted loss of \$1.5 million (22%) from the prior year. This decrease was primarily attributable to the following: an increase in sponsored programs revenue related to Computer Science, Bioengineering, Brain and Behavioral Sciences, Medical Devices and the Center for Vital Longevity; an increase in net sales and services of educational activities due to increases in executive education and certificate programs; and an increase in nonexchange sponsored programs attributable to the receipt of Texas Research Incentive Program funds with no such funding received in the prior year. The most current projection received from U. T. Dallas reflects a loss of \$20.3 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 24.4	28.4	4.0	113.7
State Appropriations	30.8	31.0	0.2	124.1
Net Tuition and Fees	75.9	76.3	0.4	305.1
Auxiliary Revenues/Sales & Services of Educational Activities	21.4	23.1	1.7	92.4
Net Investment Income	8.1	8.6	0.5	34.3
Other Operating Revenues/Gift Contributions for Operations	5.1	4.8	(0.3)	19.3
Total Revenues	165.7	172.2	6.5	688.8
Salaries and Wages/Payroll Related Costs	100.0	103.6	3.6	414.4
Materials and Supplies/Cost of Goods Sold	8.3	8.9	0.6	35.4
Depreciation and Amortization	20.5	21.0	0.5	83.9
Other Contracted Services/Professional Fees & Services	7.2	8.5	1.3	34.2
All Other Operating Expenses	36.2	35.3	(1.0)	141.1
Total Expenses	\$ 172.2	177.3	5.0	709.1
Adjusted Income (Loss)	(6.5)	(5.1)	1.5	(20.3)
Adjusted Income (Loss) Excluding Depr & Amort Exp	14.0	15.9	2.0	63.7

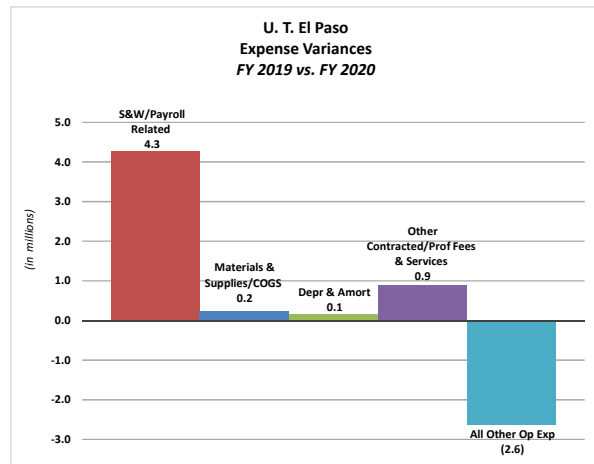
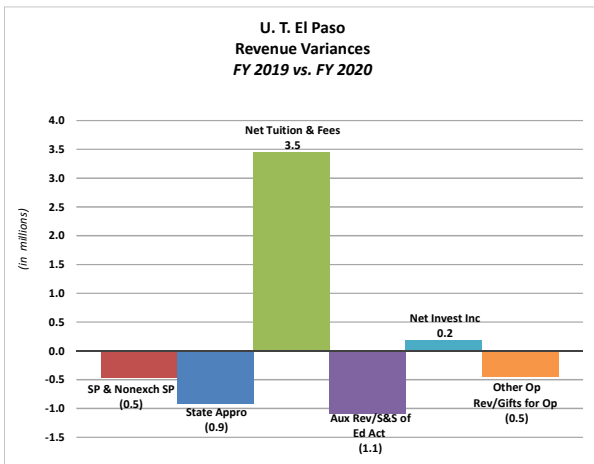


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

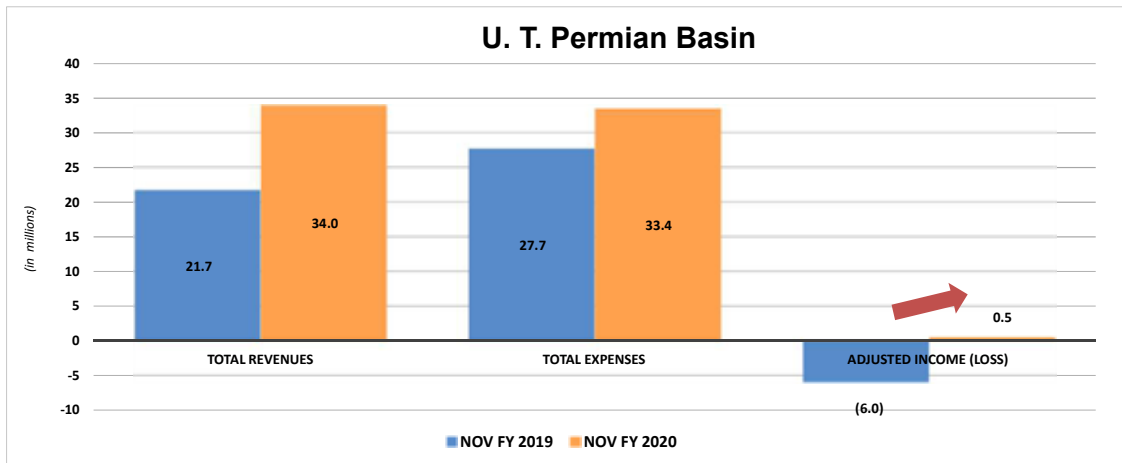


U. T. El Paso incurred a year-to-date adjusted loss of \$4.5 million, an increase in adjusted loss of \$2.2 million (94%) from the prior year. The increase was primarily due to the following: an increase in salaries and wages and payroll related costs attributable to increased faculty levels and merit increases for faculty and staff; and a decrease in net auxiliary enterprises revenue as a result of a decrease in athletic revenue. The most current projection received from U. T. El Paso reflects a loss of \$18.6 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 25.3	24.8	(0.5)	153.6
State Appropriations	27.5	26.6	(0.9)	101.8
Net Tuition and Fees	35.4	38.9	3.5	146.6
Auxiliary Revenues/Sales & Services of Educational Activities	14.2	13.1	(1.1)	42.4
Net Investment Income	4.7	4.9	0.2	16.4
Other Operating Revenues/Gift Contributions for Operations	1.3	0.9	(0.5)	4.8
Total Revenues	108.5	109.2	0.7	465.5
Salaries and Wages/Payroll Related Costs	63.7	68.0	4.3	262.2
Materials and Supplies/Cost of Goods Sold	5.4	5.6	0.2	22.4
Depreciation and Amortization	7.5	7.7	0.1	33.3
Other Contracted Services/Professional Fees & Services	9.3	10.2	0.9	33.1
All Other Operating Expenses	24.9	22.2	(2.6)	133.1
Total Expenses	\$ 110.8	113.7	2.9	484.1
Adjusted Income (Loss)	(2.3)	(4.5)	(2.2)	(18.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	5.2	3.2	(2.0)	14.7

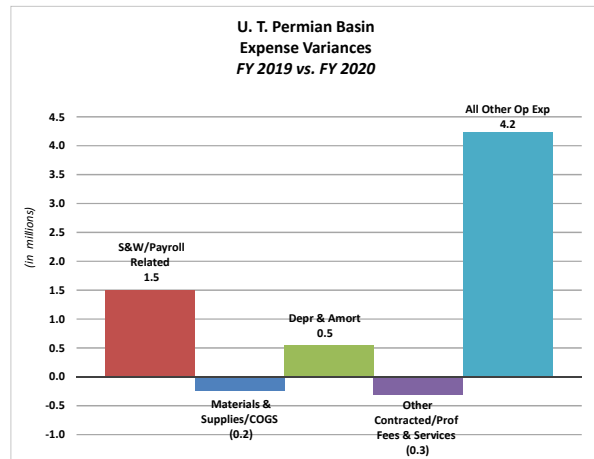
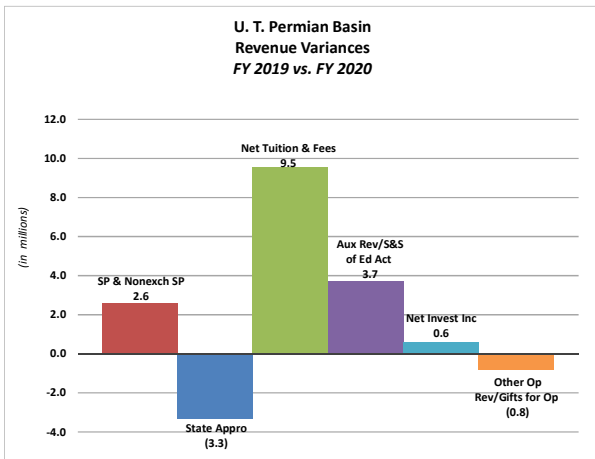


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

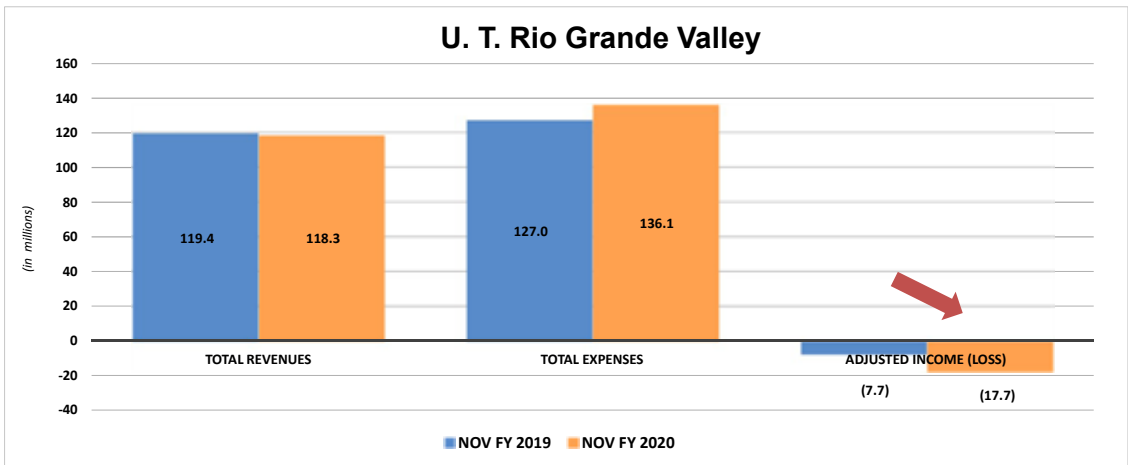


U. T. Permian Basin reported year-to-date adjusted income of \$0.5 million, an increase of \$6.5 million (109%) from the prior year. The increase was primarily attributable to an increase in net student tuition and fees and net auxiliary enterprises revenue as a result of prior year revenue being understated due to Fall 2018 tuition and fees and net auxiliary enterprises revenue which were not properly deferred to 2019. The most current projection received from *U. T. Permian Basin* reflects a loss of \$1.2 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 3.7	6.3	2.6	21.8
State Appropriations	8.8	5.5	(3.3)	21.9
Net Tuition and Fees	6.9	16.4	9.5	65.6
Auxiliary Revenues/Sales & Services of Educational Activities	0.5	4.2	3.7	16.9
Net Investment Income	0.1	0.6	0.6	2.6
Other Operating Revenues/Gift Contributions for Operations	1.7	0.9	(0.8)	3.9
Total Revenues	21.7	34.0	12.2	132.6
Salaries and Wages/Payroll Related Costs	12.4	13.9	1.5	55.8
Materials and Supplies/Cost of Goods Sold	1.5	1.3	(0.2)	5.2
Depreciation and Amortization	4.1	4.6	0.5	18.6
Other Contracted Services/Professional Fees & Services	3.2	2.9	(0.3)	11.6
All Other Operating Expenses	6.4	10.7	4.2	42.7
Total Expenses	\$ 27.7	33.4	5.7	133.8
Adjusted Income (Loss)	(6.0)	0.5	6.5	(1.2)
Adjusted Income (Loss) Excluding Depr & Amort Exp	(1.9)	5.2	7.1	17.4

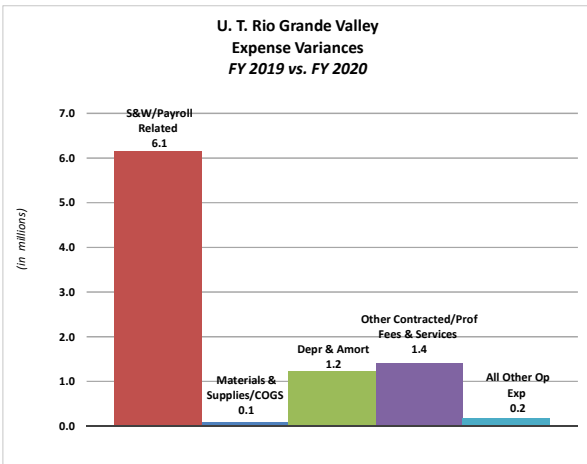
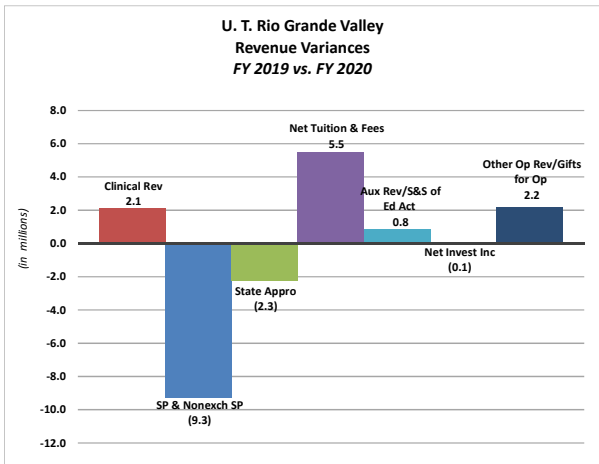


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

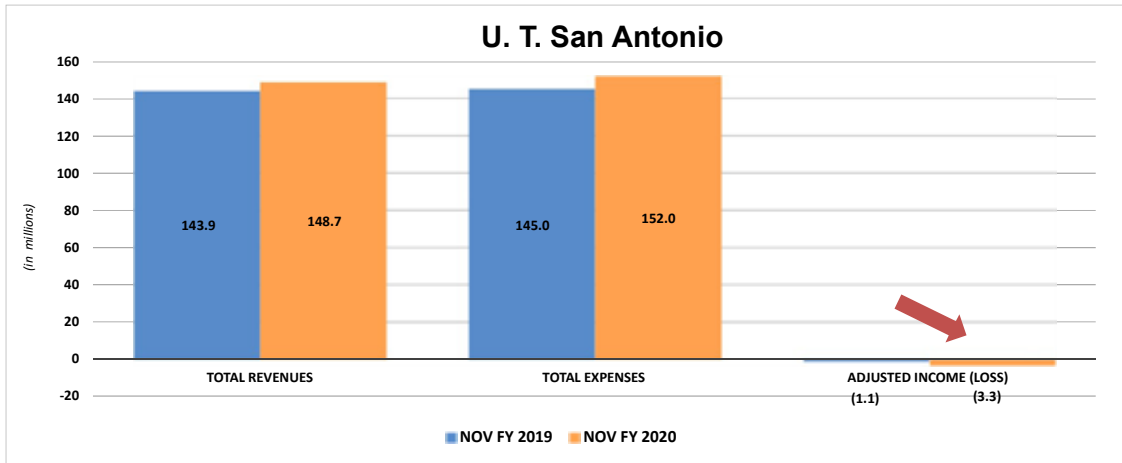


U. T. Rio Grande Valley incurred a year-to-date adjusted loss of \$17.7 million, an increase in adjusted loss of \$10.1 million (132%) from the prior year. The increase was primarily attributable to the following: an increase in salaries and wages and payroll related costs due to increases in staff and faculty positions; a decrease in sponsored programs as a result of reductions in hospital contract amounts for Graduate Medical Education programs; and a decrease in nonexchange sponsored programs. The most current projection received from U. T. Rio Grande Valley reflects a loss of \$34.1 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 0.7	2.8	2.1	11.1
Sponsored Programs/Nonexchange Sponsored Programs	49.0	39.7	(9.3)	211.9
State Appropriations	36.2	33.9	(2.3)	136.7
Net Tuition and Fees	23.5	28.9	5.5	115.8
Auxiliary Revenues/Sales & Services of Educational Activities	5.4	6.2	0.8	18.0
Net Investment Income	2.6	2.5	(0.1)	8.2
Other Operating Revenues/Gift Contributions for Operations	2.1	4.2	2.2	10.3
Total Revenues	119.4	118.3	(1.0)	511.9
Salaries and Wages/Payroll Related Costs	81.3	87.4	6.1	334.0
Materials and Supplies/Cost of Goods Sold	5.7	5.8	0.1	20.4
Depreciation and Amortization	11.5	12.7	1.2	53.3
Other Contracted Services/Professional Fees & Services	3.7	5.0	1.4	17.6
All Other Operating Expenses	24.9	25.1	0.2	120.8
Total Expenses	\$ 127.0	136.1	9.0	546.1
Adjusted Income (Loss)	(7.7)	(17.7)	(10.1)	(34.1)
Adjusted Income (Loss) Excluding Depr & Amort Exp	3.8	(5.0)	(8.8)	19.2

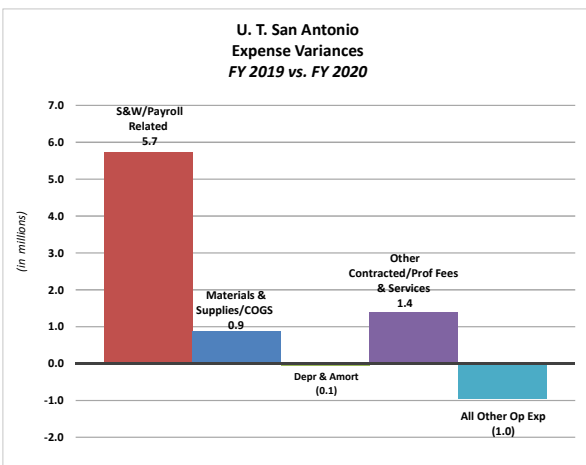
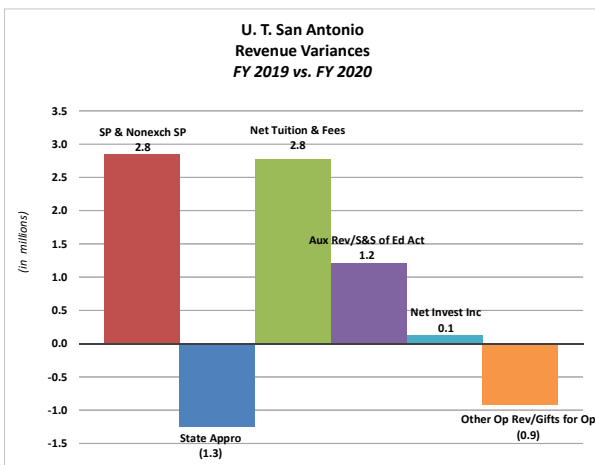


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

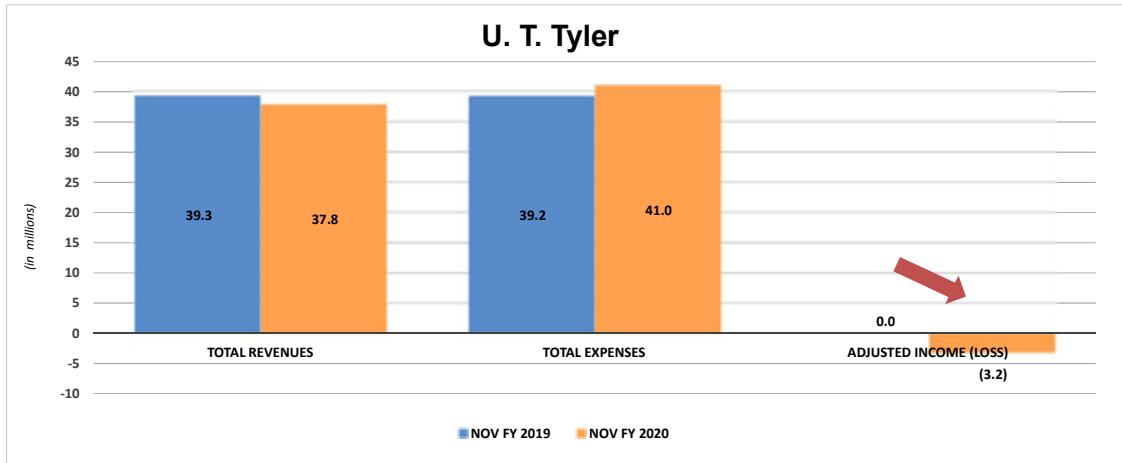


U. T. San Antonio incurred a year-to-date adjusted loss of \$3.3 million, an increase in adjusted loss of \$2.2 million (198%) from the prior year. The increase was primarily attributable an increase in salaries and wages and payroll related costs due to merit increases and increases in faculty positions. The most current projection received from U. T. San Antonio reflects a loss of \$13.4 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 34.6	37.4	2.8	149.6
State Appropriations	33.3	32.0	(1.3)	128.1
Net Tuition and Fees	51.6	54.4	2.8	217.6
Auxiliary Revenues/Sales & Services of Educational Activities	15.3	16.5	1.2	66.1
Net Investment Income	5.6	5.7	0.1	22.9
Other Operating Revenues/Gift Contributions for Operations	3.5	2.6	(0.9)	10.4
Total Revenues	143.9	148.7	4.8	594.7
Salaries and Wages/Payroll Related Costs	82.3	88.0	5.7	352.0
Materials and Supplies/Cost of Goods Sold	6.5	7.3	0.9	29.4
Depreciation and Amortization	12.4	12.3	(0.1)	49.2
Other Contracted Services/Professional Fees & Services	7.7	9.1	1.4	36.5
All Other Operating Expenses	36.2	35.2	(1.0)	141.0
Total Expenses	\$ 145.0	152.0	7.0	608.0
Adjusted Income (Loss)	(1.1)	(3.3)	(2.2)	(13.4)
Adjusted Income (Loss) Excluding Depr & Amort Exp	11.2	8.9	(2.3)	35.8

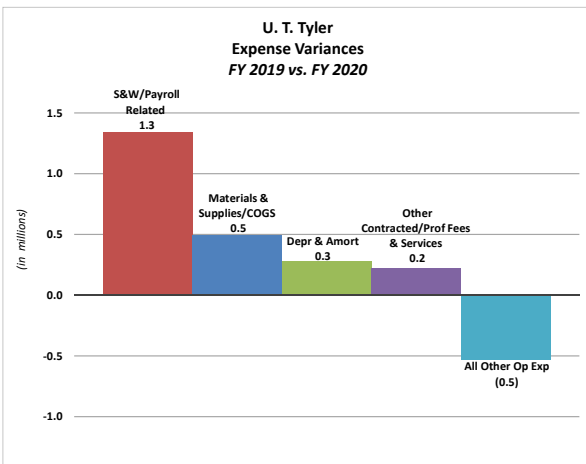
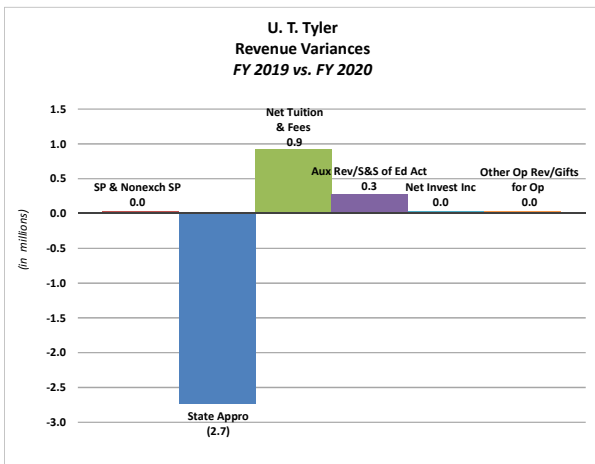


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

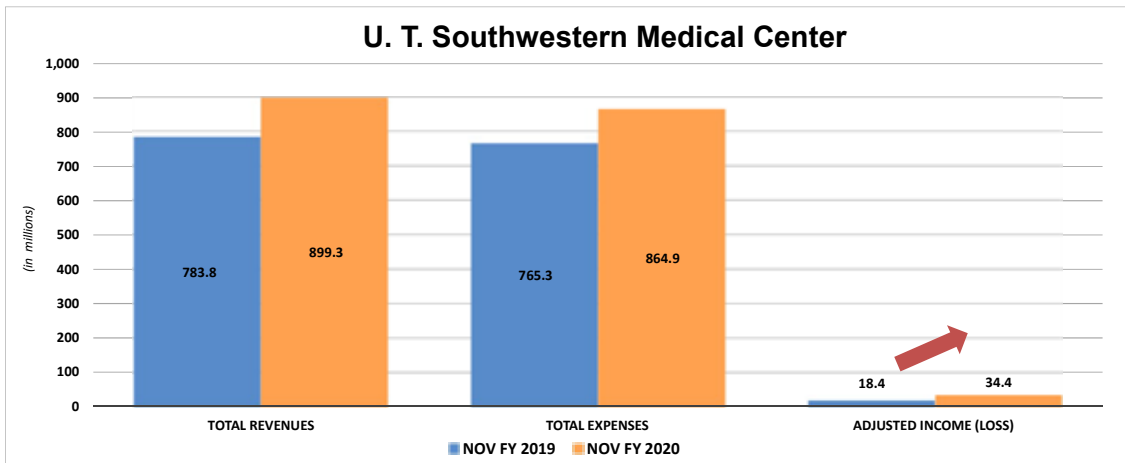


U. T. Tyler incurred a year-to-date adjusted loss of \$3.2 million, a decrease of \$3.2 million (8,054%) from the prior year. The decrease was primarily attributable to an increase in salaries and wages and payroll related costs as a result of increased faculty levels due to new and growing academic programs. The most current projection received from U. T. Tyler reflects a loss of \$14.6 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Sponsored Programs/Nonexchange Sponsored Programs	\$ 5.8	5.9	0.0	25.0
State Appropriations	11.0	8.3	(2.7)	33.2
Net Tuition and Fees	13.6	14.5	0.9	53.9
Auxiliary Revenues/Sales & Services of Educational Activities	6.7	6.9	0.3	23.7
Net Investment Income	1.8	1.8	0.0	8.2
Other Operating Revenues/Gift Contributions for Operations	0.3	0.3	0.0	2.0
Total Revenues	39.3	37.8	(1.4)	146.0
Salaries and Wages/Payroll Related Costs	22.8	24.1	1.3	90.4
Materials and Supplies/Cost of Goods Sold	2.6	3.1	0.5	11.5
Depreciation and Amortization	4.0	4.3	0.3	17.4
Other Contracted Services/Professional Fees & Services	2.0	2.3	0.2	13.2
All Other Operating Expenses	7.8	7.3	(0.5)	28.0
Total Expenses	39.2	41.0	1.8	160.6
Adjusted Income (Loss)	0.0	(3.2)	(3.2)	(14.6)
Adjusted Income (Loss) Excluding Depr & Amort Exp	4.0	1.1	(3.0)	2.8

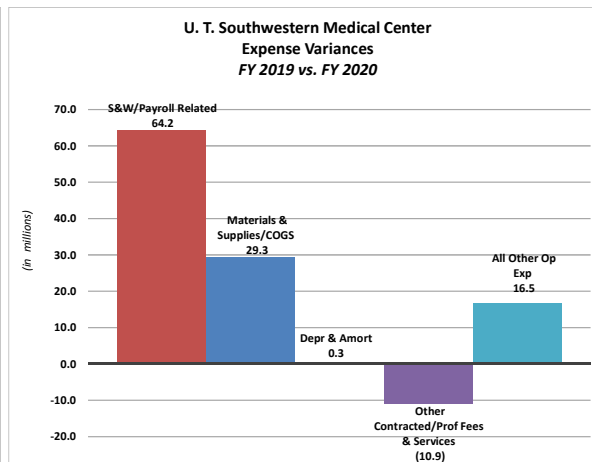
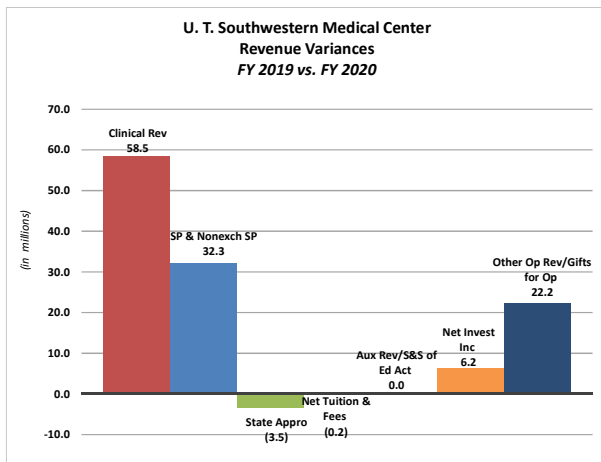


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

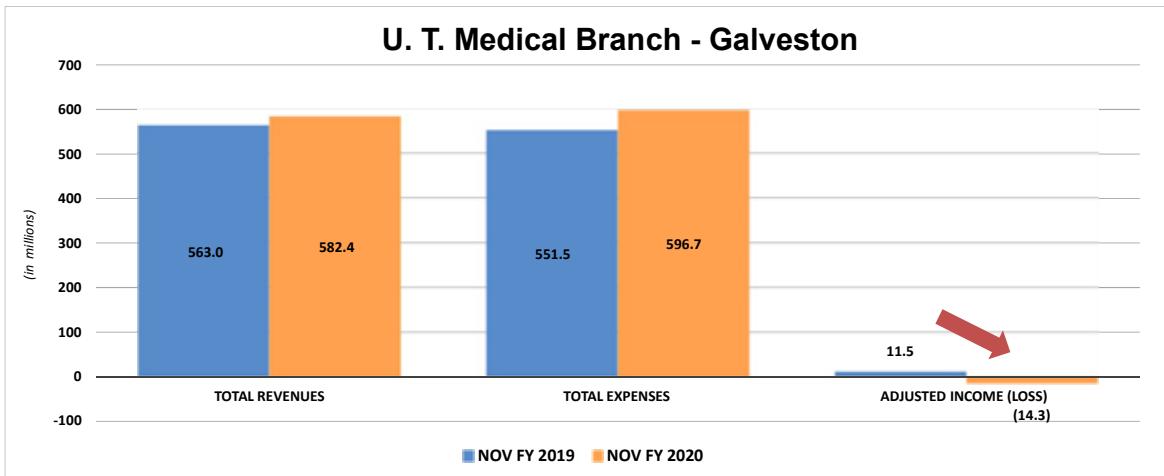


U. T. Southwestern Medical Center reported year-to-date adjusted income of \$34.4 million, an increase of \$16.0 million (87%) from the prior year. The increase was primarily attributable to an increase in net sales and services of hospitals due to increased inpatient and outpatient visits, and increased admissions and surgical volumes. The most current projection received from U. T. Southwestern Medical Center reflects income of \$61.6 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 523.6	582.2	58.5	2,277.7
Sponsored Programs/Nonexchange Sponsored Programs	137.8	170.0	32.3	680.1
State Appropriations	48.5	45.0	(3.5)	183.5
Net Tuition and Fees	6.8	6.5	(0.2)	26.2
Auxiliary Revenues/Sales & Services of Educational Activities	9.2	9.2	0.0	36.6
Net Investment Income	32.9	39.1	6.2	118.8
Other Operating Revenues/Gift Contributions for Operations	25.0	47.2	22.2	174.1
Total Revenues	783.8	899.3	115.5	3,497.0
Salaries and Wages/Payroll Related Costs	489.1	553.3	64.2	2,213.7
Materials and Supplies/Cost of Goods Sold	135.3	164.6	29.3	632.0
Depreciation and Amortization	44.4	44.7	0.3	184.2
Other Contracted Services/Professional Fees & Services	50.0	39.1	(10.9)	173.0
All Other Operating Expenses	46.6	63.1	16.5	232.4
Total Expenses	\$ 765.3	864.9	99.5	3,435.4
Adjusted Income (Loss)	18.4	34.4	16.0	61.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	62.8	79.2	16.3	245.8

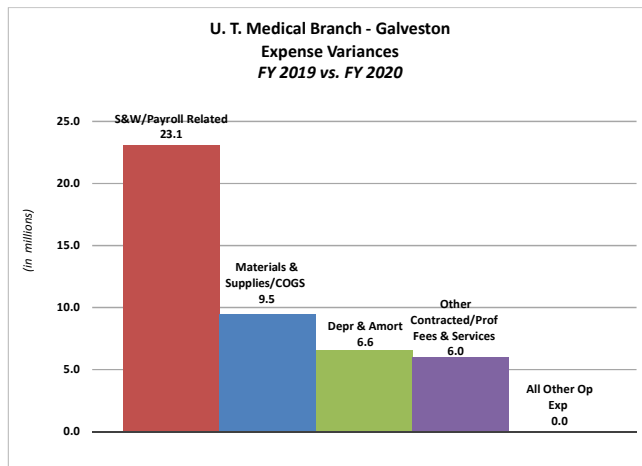
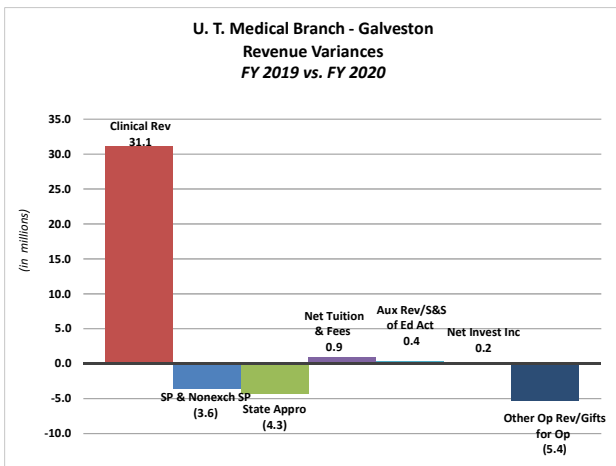


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

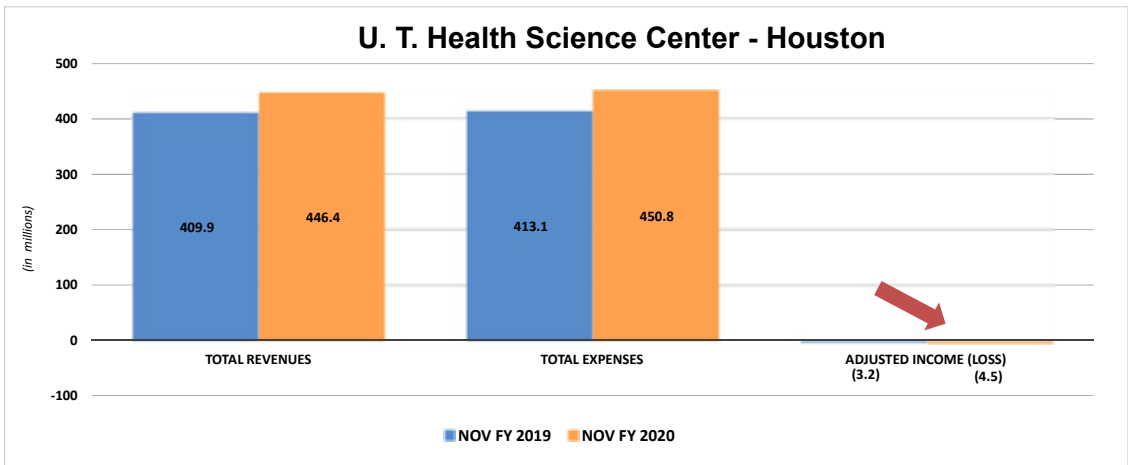


U. T. Medical Branch - Galveston incurred a year-to-date adjusted loss of \$14.3 million, a decrease of \$25.8 million (224%) from the prior year. The decrease was primarily attributable to the following: an increase in salaries and wages and payroll related costs as a result of increases in staff and faculty positions associated with the opening of the Clear Lake hospital and merit increases; an increase in materials and supplies due to Clear Lake hospital expenses, an increase in Correctional Managed Care expenses, and an increase in Ambulatory Clinic medical supplies; and an increase in depreciation and amortization expense as a result of various projects placed into service. The most current projection received from *U. T. Medical Branch - Galveston* reflects a loss of \$30.9 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 362.6	393.8	31.1	1,735.7
Sponsored Programs/Nonexchange Sponsored Programs	48.9	45.3	(3.6)	181.8
State Appropriations	94.1	89.8	(4.3)	358.4
Net Tuition and Fees	11.1	12.0	0.9	46.3
Auxiliary Revenues/Sales & Services of Educational Activities	7.4	7.8	0.4	31.8
Net Investment Income	17.7	17.9	0.2	62.8
Other Operating Revenues/Gift Contributions for Operations	21.3	15.9	(5.4)	49.3
Total Revenues	563.0	582.4	19.3	2,466.1
Salaries and Wages/Payroll Related Costs	338.3	361.4	23.1	1,574.9
Materials and Supplies/Cost of Goods Sold	66.6	76.1	9.5	308.4
Depreciation and Amortization	41.0	47.6	6.6	198.8
Other Contracted Services/Professional Fees & Services	46.2	52.3	6.0	177.2
All Other Operating Expenses	59.4	59.4	0.0	237.7
Total Expenses	\$ 551.5	596.7	45.2	2,497.0
Adjusted Income (Loss)	11.5	(14.3)	(25.8)	(30.9)
Adjusted Income (Loss) Excluding Depr & Amort Exp	52.5	33.2	(19.3)	167.9

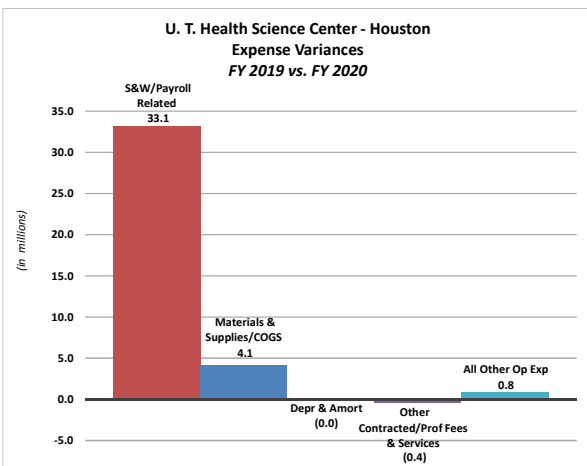
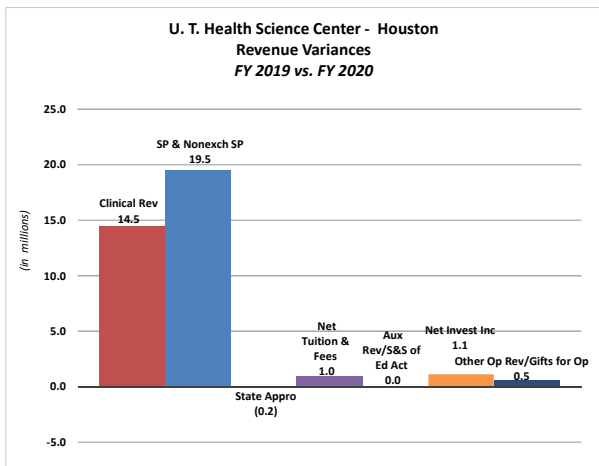


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

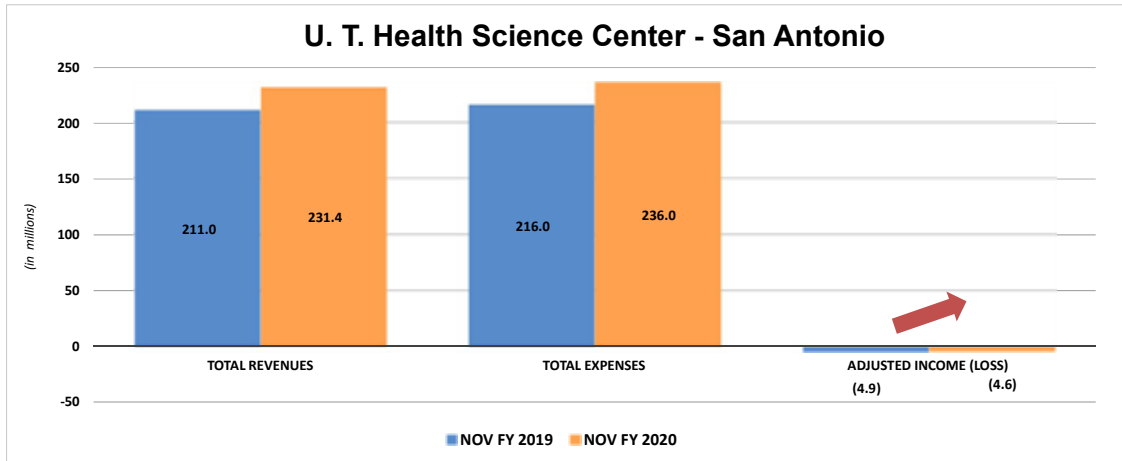


U. T. Health Science Center - Houston incurred a year-to-date adjusted loss of \$4.5 million, an increase in adjusted loss of \$1.2 million (38%) from the prior year. The increase was primarily a result of an increase in salaries and wages and payroll related costs as a result of growth in the physician practice plan. The most current projection received from U. T. Health Science Center - Houston reflects income of \$5.0 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 112.2	126.6	14.5	508.9
Sponsored Programs/Nonexchange Sponsored Programs	185.9	205.4	19.5	846.9
State Appropriations	53.8	53.6	(0.2)	214.6
Net Tuition and Fees	17.2	18.2	1.0	63.1
Auxiliary Revenues/Sales & Services of Educational Activities	17.2	17.2	0.0	66.5
Net Investment Income	16.6	17.7	1.1	71.7
Other Operating Revenues/Gift Contributions for Operations	6.9	7.5	0.5	74.9
Total Revenues	409.9	446.4	36.5	1,846.5
Salaries and Wages/Payroll Related Costs	299.7	332.8	33.1	1,383.6
Materials and Supplies/Cost of Goods Sold	21.7	25.9	4.1	95.5
Depreciation and Amortization	16.8	16.8	(0.0)	67.2
Other Contracted Services/Professional Fees & Services	32.7	32.3	(0.4)	146.9
All Other Operating Expenses	42.2	43.0	0.8	148.3
Total Expenses	\$ 413.1	450.8	37.7	1,841.6
Adjusted Income (Loss)	(3.2)	(4.5)	(1.2)	5.0
Adjusted Income (Loss) Excluding Depr & Amort Exp	13.6	12.4	(1.2)	72.2

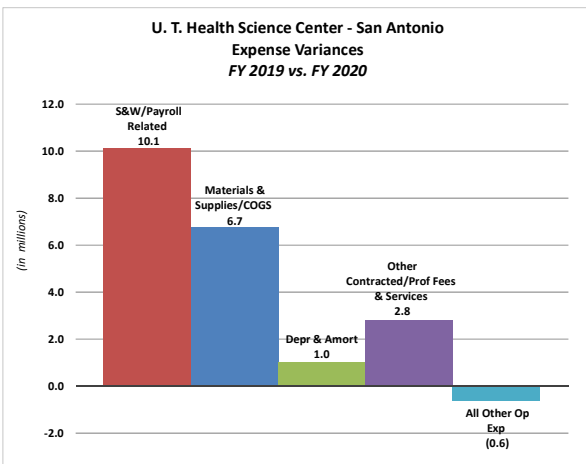
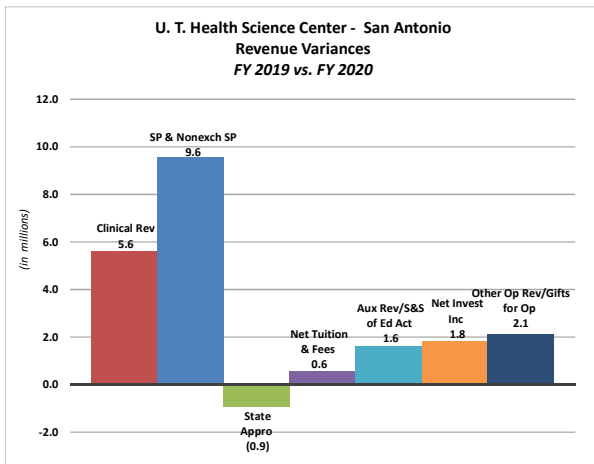


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

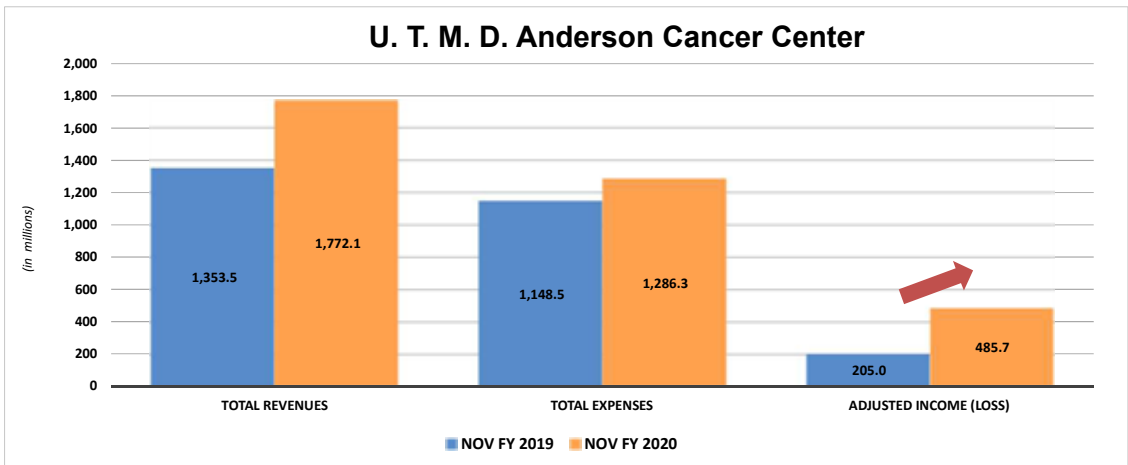


U. T. Health Science Center - San Antonio incurred a year-to-date adjusted loss of \$4.6 million, a decrease in adjusted loss of \$0.4 million (7%). This decrease was primarily attributable to the following: an increase in sponsored programs revenue due to an increase in grants and clinical contracts; and an increase in clinical revenue as a result of increased volume and clinical productivity at all UT Health Physicians sites and clinical expansion efforts. The most current projection received from U. T. Health Science Center - San Antonio reflects a loss of \$22.3 million for the year due to expansion of the clinical enterprise and strengthening of the research mission.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 55.6	61.2	5.6	267.3
Sponsored Programs/Nonexchange Sponsored Programs	78.9	88.5	9.6	367.8
State Appropriations	43.3	42.3	(0.9)	169.8
Net Tuition and Fees	11.5	12.1	0.6	48.7
Auxiliary Revenues/Sales & Services of Educational Activities	8.3	9.9	1.6	32.3
Net Investment Income	12.2	14.0	1.8	45.5
Other Operating Revenues/Gift Contributions for Operations	1.3	3.5	2.1	43.1
Total Revenues	211.0	231.4	20.4	974.5
Salaries and Wages/Payroll Related Costs	147.3	157.4	10.1	671.6
Materials and Supplies/Cost of Goods Sold	18.1	24.8	6.7	105.7
Depreciation and Amortization	14.3	15.3	1.0	60.2
Other Contracted Services/Professional Fees & Services	10.0	12.7	2.8	47.9
All Other Operating Expenses	26.4	25.8	(0.6)	111.3
Total Expenses	\$ 216.0	236.0	20.0	996.8
Adjusted Income (Loss)	(4.9)	(4.6)	0.4	(22.3)
Adjusted Income (Loss) Excluding Depr & Amort Exp	9.3	10.7	1.4	38.0

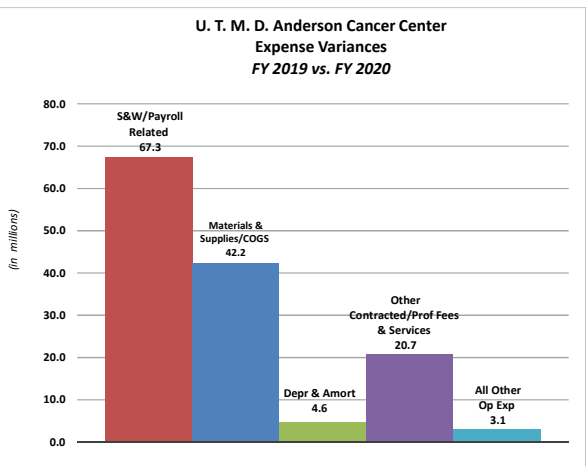
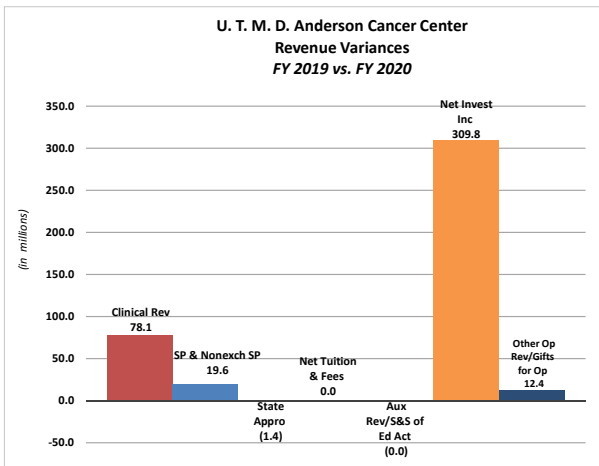


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019

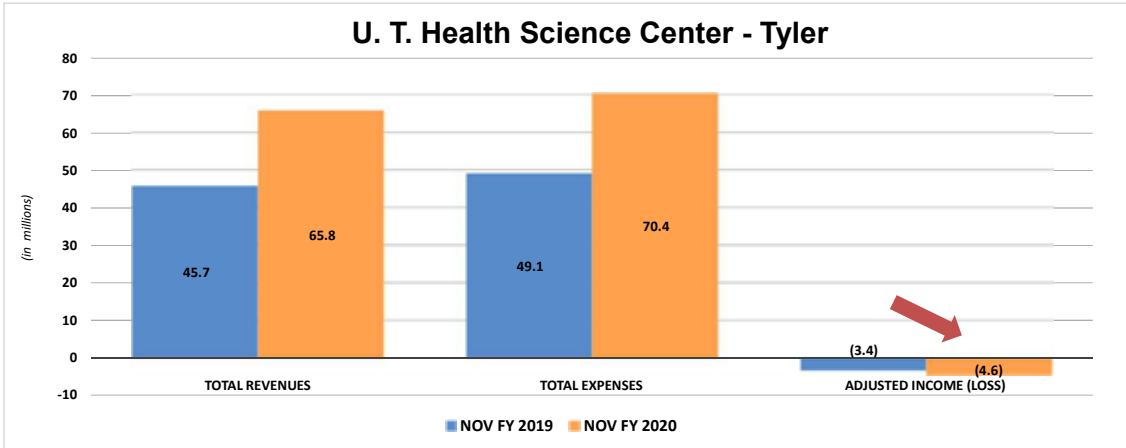


U. T. M. D. Anderson Cancer Center reported year-to-date adjusted income of \$485.7 million, an increase of \$280.7 million (137%) from the prior year. The increase was primarily attributable to an increase in net investment income due to the receipt of \$300 million from Takeda Pharmaceutical for a new agreement. As part of the agreement, U. T. M. D. Anderson Cancer Center will be distributing approximately \$200 million to various contributors in the coming months. An increase in net sales and services of hospitals due to an increase in admissions, patient days and outpatient visits also contributed to the favorable variance. The most current projection received from U. T. M. D. Anderson Cancer Center reflects income of \$854.6 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 1,093.8	1,171.9	78.1	4,714.6
Sponsored Programs/Nonexchange Sponsored Programs	81.0	100.6	19.6	403.7
State Appropriations	51.9	50.5	(1.4)	205.8
Net Tuition and Fees	0.7	0.8	0.0	1.9
Auxiliary Revenues/Sales & Services of Educational Activities	12.6	12.6	(0.0)	50.5
Net Investment Income	54.3	364.1	309.8	389.5
Other Operating Revenues/Gift Contributions for Operations	59.3	71.6	12.4	247.5
Total Revenues	1,353.5	1,772.1	418.6	6,013.6
Salaries and Wages/Payroll Related Costs	658.8	726.1	67.3	2,848.6
Materials and Supplies/Cost of Goods Sold	260.0	302.2	42.2	1,190.2
Depreciation and Amortization	88.7	93.2	4.6	379.9
Other Contracted Services/Professional Fees & Services	63.8	84.4	20.7	417.4
All Other Operating Expenses	77.3	80.4	3.1	322.9
Total Expenses	\$ 1,148.5	1,286.3	137.9	5,159.0
Adjusted Income (Loss)	205.0	485.7	280.7	854.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	293.7	579.0	285.3	1,234.5

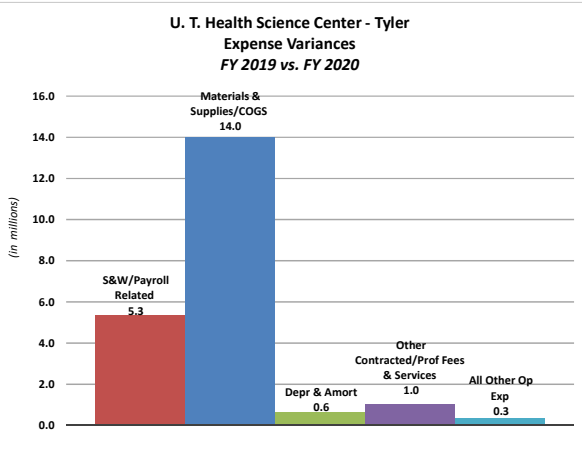
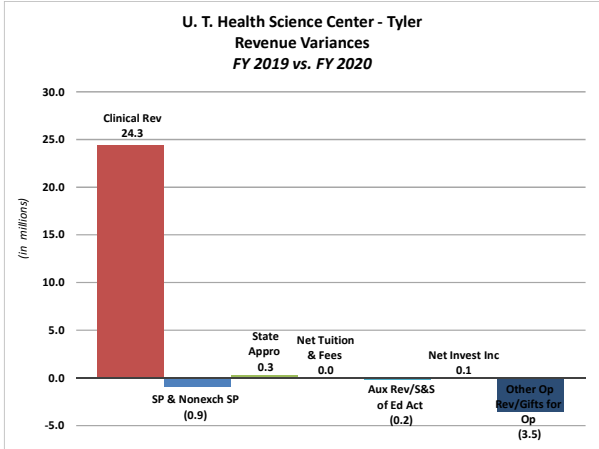


Monthly Financial Report Comparison of Operating Results, Margin and Projected Year-End For the Period Ending November 30, 2019



U. T. Health Science Center - Tyler incurred a year-to-date adjusted loss of \$4.6 million, an increase in adjusted loss of \$1.2 million (36%) from the prior year. The increase was primarily due to the following: an increase in materials and supplies as result of the purchase of high cost oncology drugs, as well as pharmaceuticals for a second retail pharmacy location associated with the recent Hope Oncology practice acquisition; and an increase in salaries and wages and payroll related costs related to both the oncology practice acquisition and the addition of clinical faculty for a physician management services agreement. The most current projection received from U. T. Health Science Center - Tyler reflects income of \$0.6 million for the year.

(in millions)	November YTD FY 2019	November YTD FY 2020	Variance	Annual Projected FY 2020
Clinical Revenues	\$ 13.7	38.0	24.3	160.8
Sponsored Programs/Nonexchange Sponsored Programs	7.0	6.2	(0.9)	25.1
State Appropriations	12.9	13.1	0.3	52.9
Net Tuition and Fees	0.1	0.1	0.0	0.5
Auxiliary Revenues/Sales & Services of Educational Activities	1.1	0.9	(0.2)	4.7
Net Investment Income	1.0	1.0	0.1	4.1
Other Operating Revenues/Gift Contributions for Operations	10.0	6.5 *	(3.5)	30.1 *
Total Revenues	45.7	65.8	20.1	278.2
Salaries and Wages/Payroll Related Costs	31.1	36.4	5.3	145.6
Materials and Supplies/Cost of Goods Sold	5.2	19.2	14.0	72.5
Depreciation and Amortization	3.6	4.3	0.6	17.0
Other Contracted Services/Professional Fees & Services	5.6	6.7	1.0	26.6
All Other Operating Expenses	3.6	4.0	0.3	15.8
Total Expenses	\$ 49.1	70.4	21.3	277.6
Adjusted Income (Loss)	(3.4)	(4.6)	(1.2)	0.6
Adjusted Income (Loss) Excluding Depr & Amort Exp	0.2	(0.4)	(0.6)	17.6



*Other Operating Income includes 30% of UT Health East Texas' (UTHET's) net adjusted income which was \$0.4 million through November. The projected income of \$0.6 million includes \$2.0 million of UTHET's net adjusted income for the year.

4. U. T. System: Report on the Analysis of Financial Condition for Fiscal Year 2019

Ms. Hinojosa Segura, Associate Vice Chancellor and Controller, will discuss highlights of the 2019 Analysis of Financial Condition using the PowerPoint on the following pages. The 2019 Analysis of Financial Condition, [Pages 111 - 126](#), is a broad annual financial evaluation that rates U. T. System institutions based on factors analyzed as either "Satisfactory," "Watch," or "Unsatisfactory."

An Executive Summary of the report may be found on [Pages 127 - 188](#). There is strength in most institutions' financials and all but one were rated "Satisfactory" for Fiscal Year 2019. U. T. Permian Basin's ratings were maintained as "Watch" for Fiscal Year 2019.

BACKGROUND INFORMATION

Financial analysis is performed from each institution's Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. The ratios presented in this report are ratios commonly used by bond rating agencies, public accounting firms, and consulting firms. The following ratios were analyzed: Scorecard Rating, Operating Revenue, Annual Operating Margin, Spendable Cash to Operating Expenses and Spendable Cash to Total Debt (academic institutions only), and Unrestricted Cash and Investments to Total Debt (health institutions only).

The Analysis of Financial Condition has been prepared since 1995 to track financial ratios to determine if the financial condition of the institutions is improving or declining. This analysis compares trends for Fiscal Year 2015 through Fiscal Year 2019.

Analysis of Financial Condition Fiscal Year 2019

Veronica Hinojosa Segura
Associate Vice Chancellor and Controller

U. T. System Board of Regents' Meeting
Finance and Planning Committee
February 2020



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Analysis of Financial Condition (AFC)

- Analyze & Compare five years of Financial Data
 - ❑ Balance sheet
 - ❑ Statement of revenues, expenses, and changes in net position

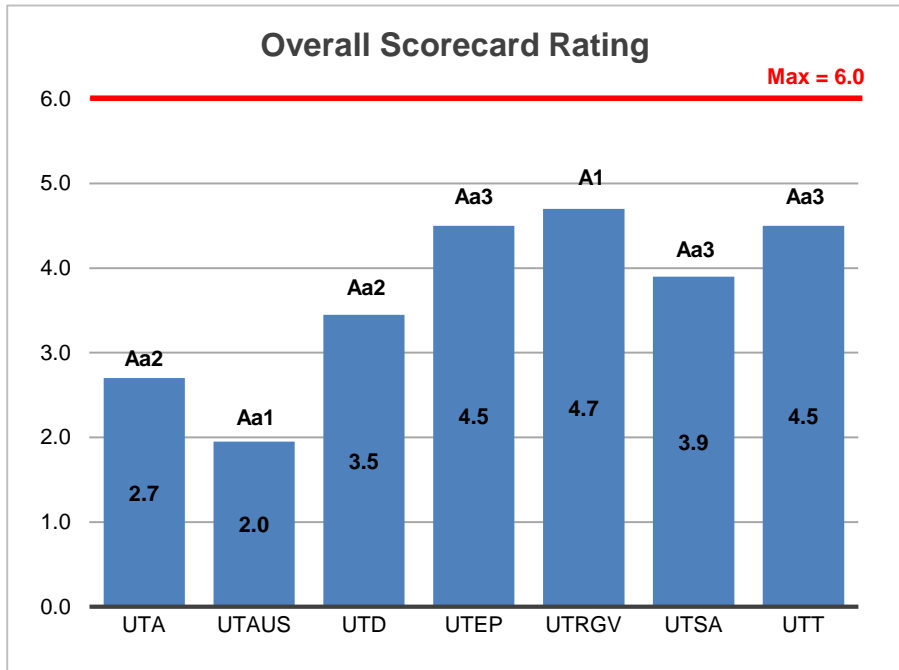
- Rating Methodology
 1. Overall Scorecard
 2. Five-year Historical Trends

Academics	Healths
Market Profile	Market Position
Operating Performance	Operating Performance & Liquidity
Wealth and Liquidity	Leverage
Leverage	

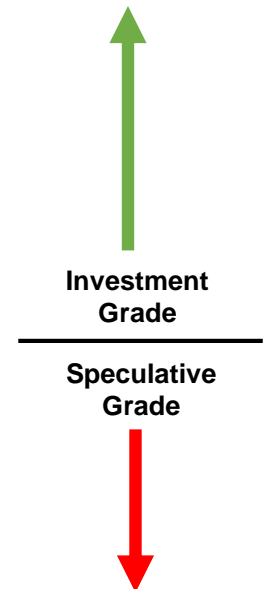
Academics	Healths
Operating Revenue	Operating Revenue
Operating Margin	Operating Margin
Spendable Cash & Investments to Operating Expenses	Unrestricted Cash & Investments to Total Debt
Spendable Cash & Investments to Total Debt	



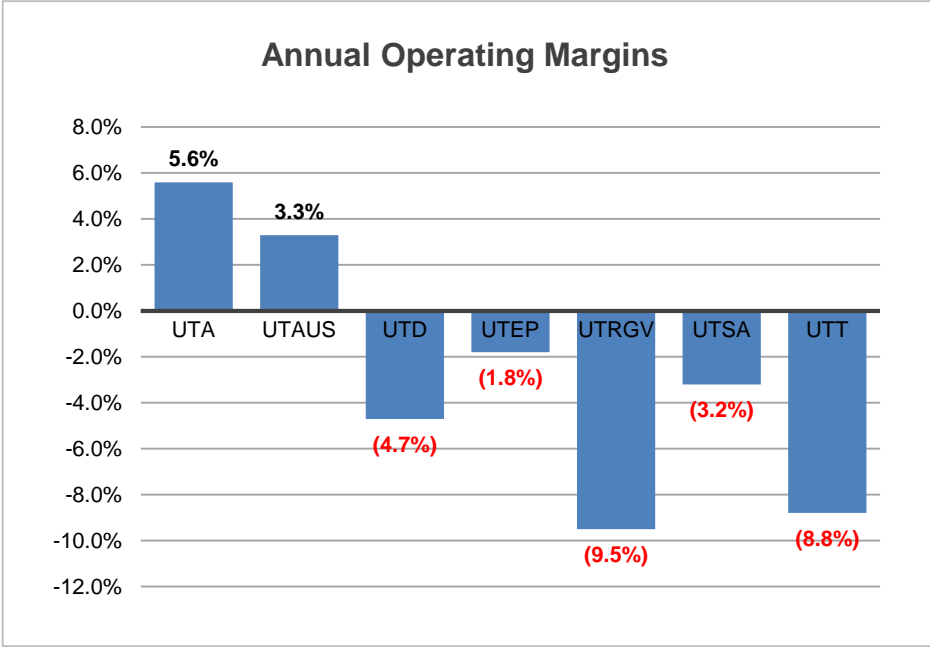
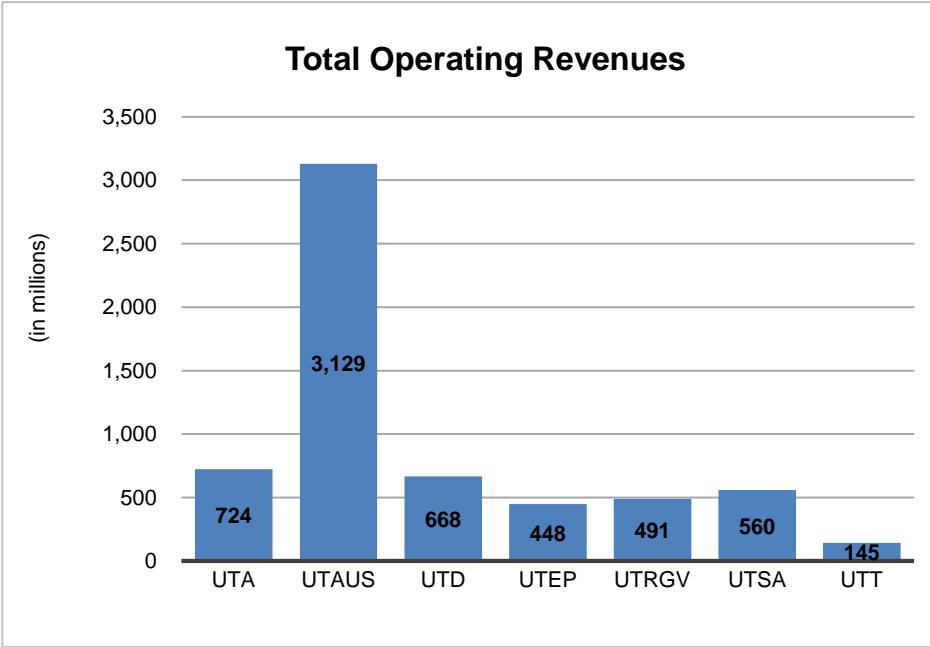
Academic Institution Results - FY 2019 (Excluding UTPB)



Scorecard Outcome	Aggregate Weighted Factor Score
Aaa	1.5
Aa1	1.5 - 2.5
Aa2	2.5 - 3.5
Aa3	3.5 - 4.5
A1	4.5 - 5.5
A2	5.5 - 6.5
A3	6.5 - 7.5
Baa1	7.5 - 8.5
Baa2	8.5 - 9.5
Baa3	9.5 - 10.5
Ba1	10.5 - 11.5
Ba2	11.5 - 12.5
Ba3	12.5 - 13.5
B1	13.5 - 14.5
B2	14.5 - 15.5
B3	15.5 - 16.5
Caa1 and below	> 16.5

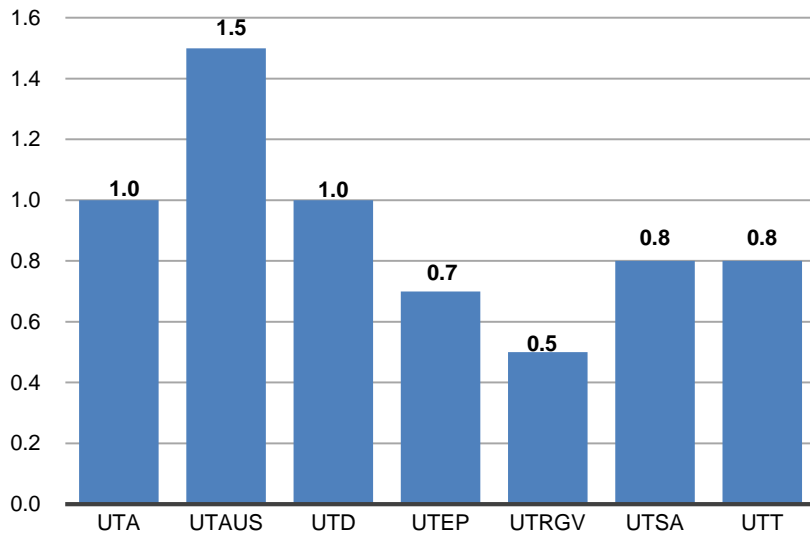


Academic Institution Results - FY 2019 (Excluding UTPB) – (cont.)

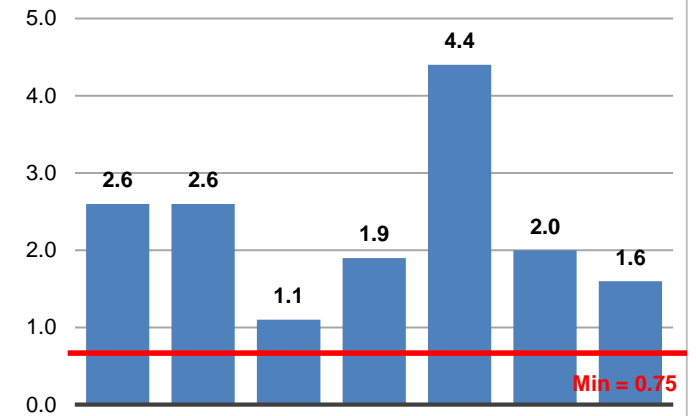


Academic Institution Results - FY 2019 (Excluding UTPB) – (cont.)

Spendable Cash & Investments to Operating Expenses



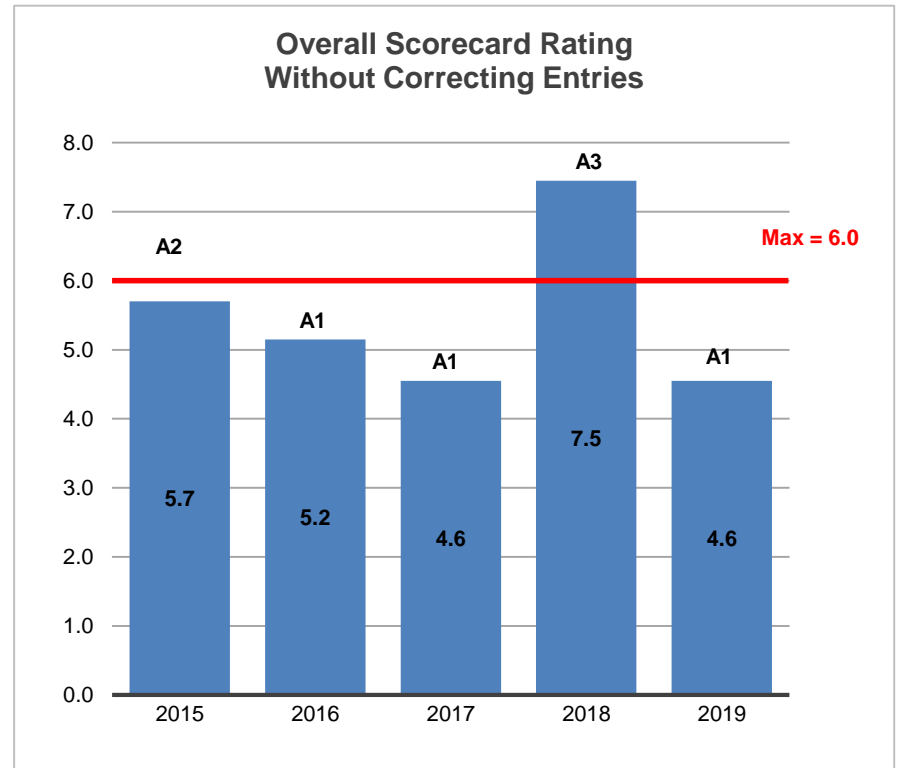
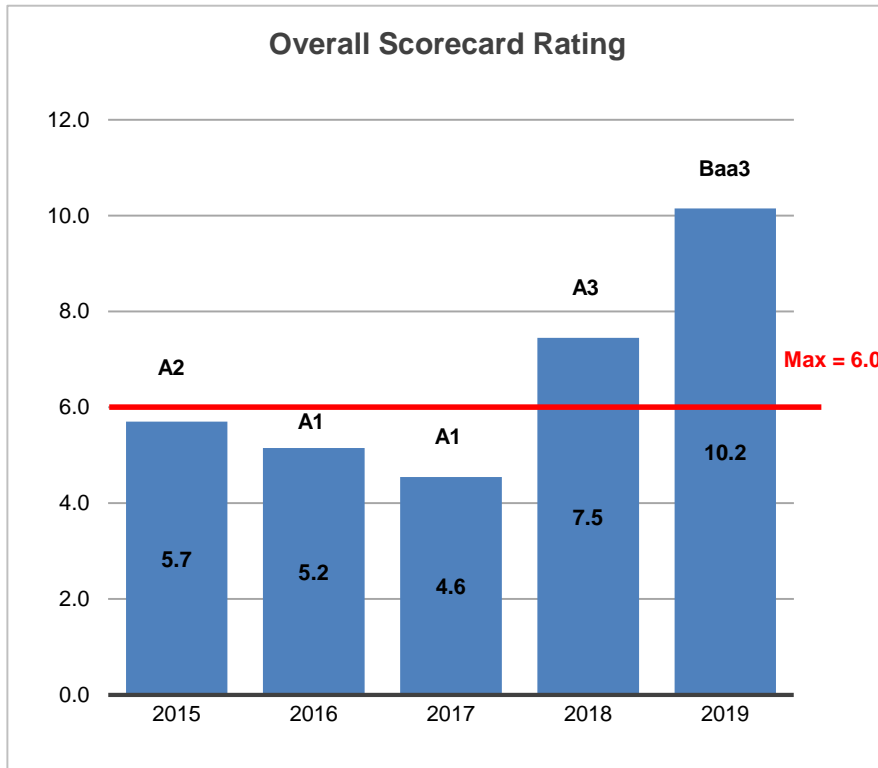
Spendable Cash & Investments to Total Debt



	UTA	UT AUS	UTD	UTEP	UTRGV	UTSA	UTT
Spendable Cash & Inv. To Total Debt (x)	2.6	2.6	1.1	1.9	4.4	2.0	1.6
Spendable C&I	682.3	4,328.3	651.0	293.9	235.2	440.6	122.7
Total Debt	267.3	1,653.4	578.4	154.8	53.4	218.0	75.3

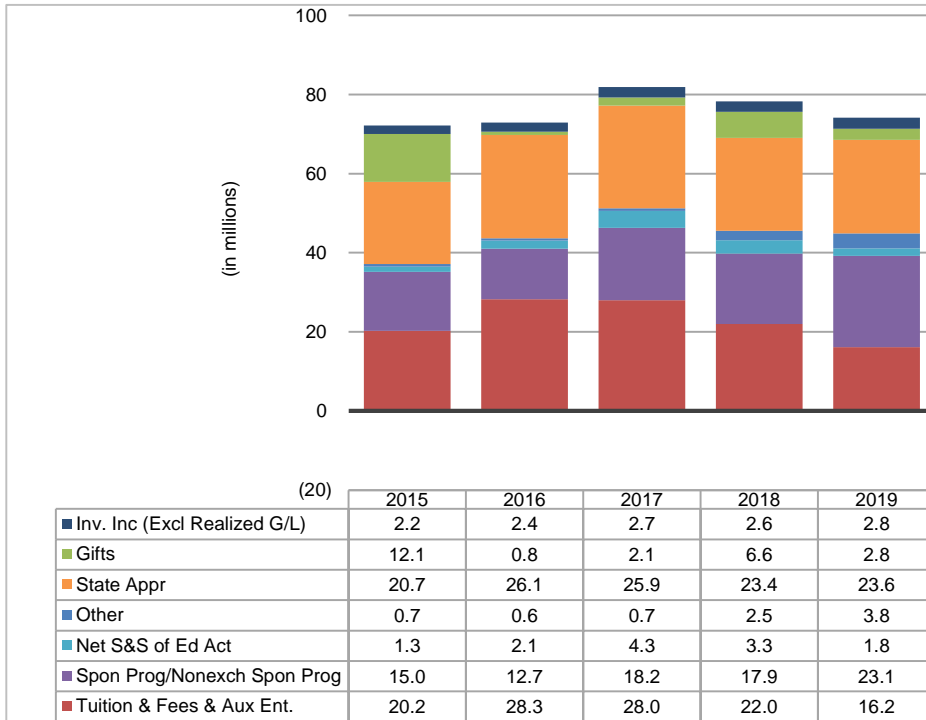


UTPB Analysis

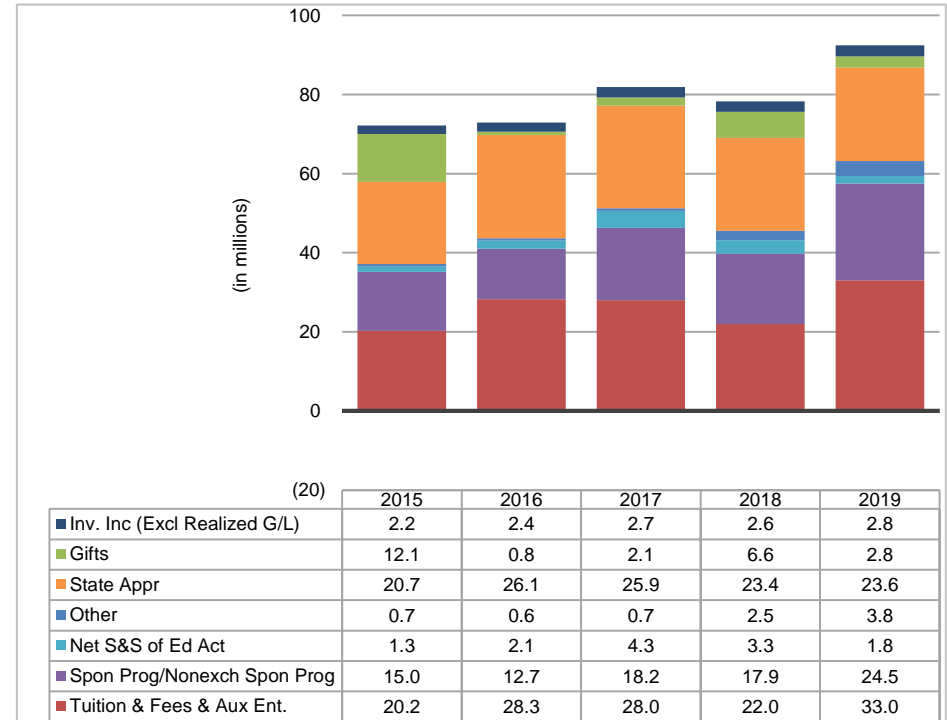


UTPB Analysis (cont.)

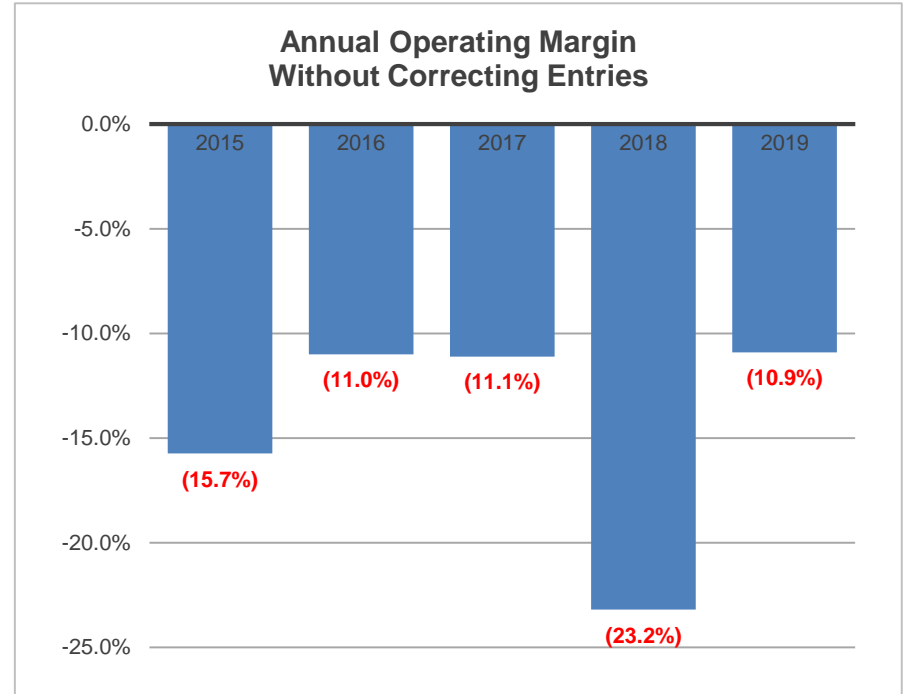
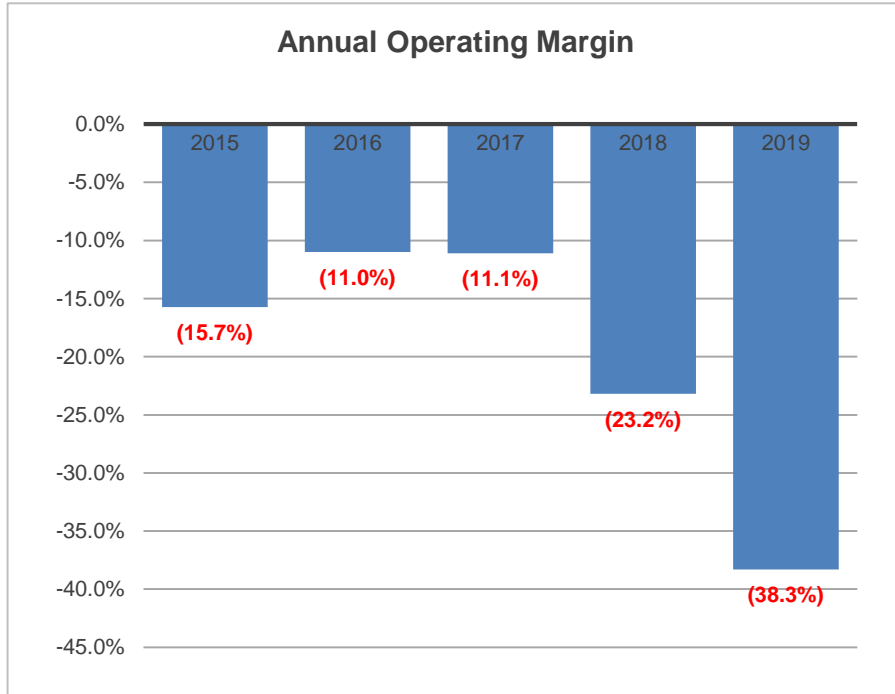
Operating Revenues



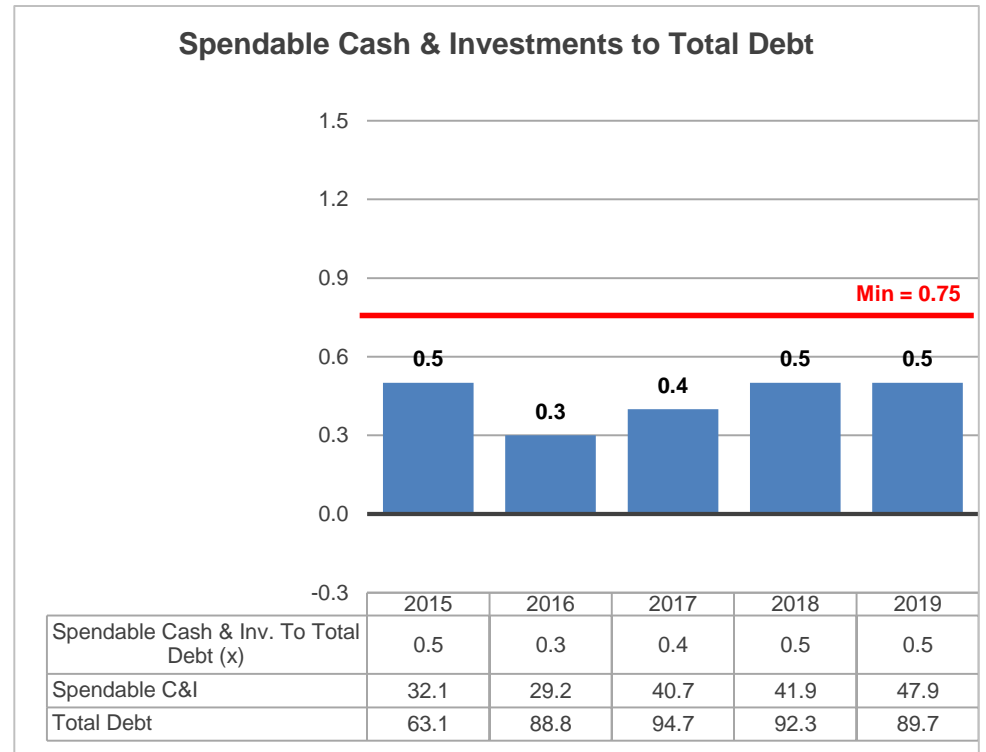
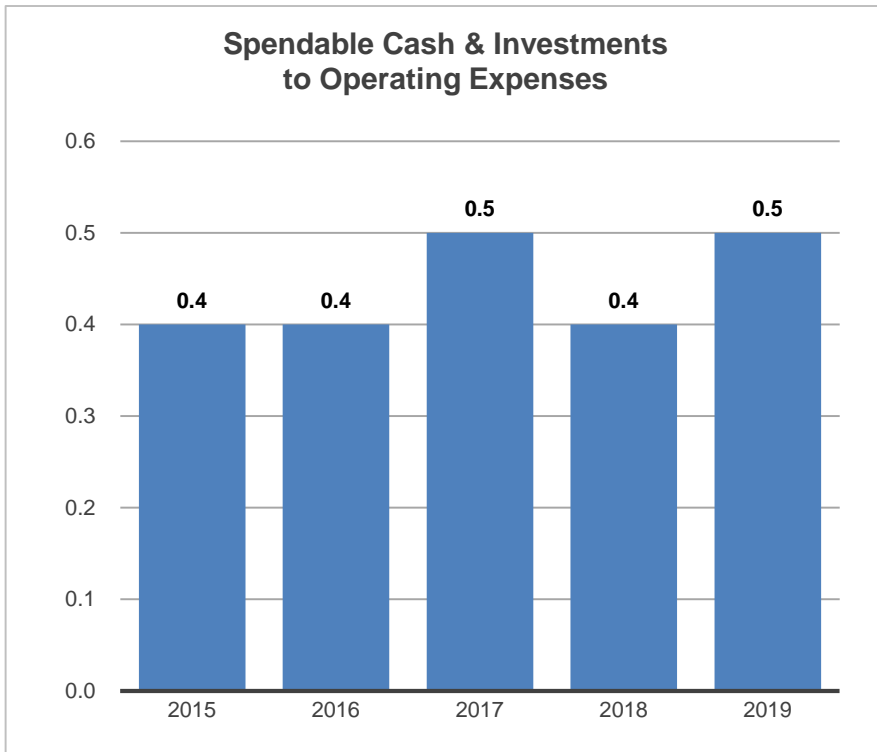
Operating Revenues Without Correcting Entries



UTPB Analysis (cont.)



UTPB Analysis (cont.)



UTPB Action Plan

- Intensive audit and accounting clean-up has yielded a solid foundation
- Clean-up and implementation to address root causes to be completed in 2020
- Debt issues – at current debt retirement rates, spendable cash to debt ratio can improve by 36% in next five years
- Potential improvement of additional 14% with an increase in spendable cash of 1% per year in gifts, state appropriations, etc.
- Approved tuition and fee rate increases will increase the potential to experience improved ratios
- Selected strategic efforts to increase market share, prioritize expenses, and increase revenue are summarized on the following slides



UTPB Action Plan (cont.)

Strategic Initiative	Anticipated Financial Impact	Anticipated Date
<p><u>Strategic Enrollment Management:</u></p> <ul style="list-style-type: none"> • Targeting 1-3% increase - next few years • Ruffalo Noel Levitz (RNL) Consulting • Additional staff • Technology investments • Processes and strategy shift for targeted students 	<ul style="list-style-type: none"> • 1% increase yields approximately \$900K, in new tuition, fee, and housing revenues • Improved cash flow and net position 	<ul style="list-style-type: none"> • Fall 2020 with financial impact for the fiscal year ending August 31, 2021
<p><u>Academic Restructuring:</u></p> <ul style="list-style-type: none"> • Comprehensive review of productivity of academic programs • Consolidation or elimination of low-producing academic programs 	<ul style="list-style-type: none"> • Expected to produce savings • Improved cash flow and net position 	<ul style="list-style-type: none"> • Fall 2020
<p><u>Advancement:</u></p> <ul style="list-style-type: none"> • Assembled the first ever team of advancement professionals • Structure and resources in place to expand ability to generate private gifts 	<ul style="list-style-type: none"> • Conservatively, 3% increase per year • Estimated minimum \$500K per year • Potential increase of \$10-\$30M in Engineering endowment (naming rights) • Improved cash flow and net position 	<ul style="list-style-type: none"> • Financial impact for the fiscal year ending August 31, 2020

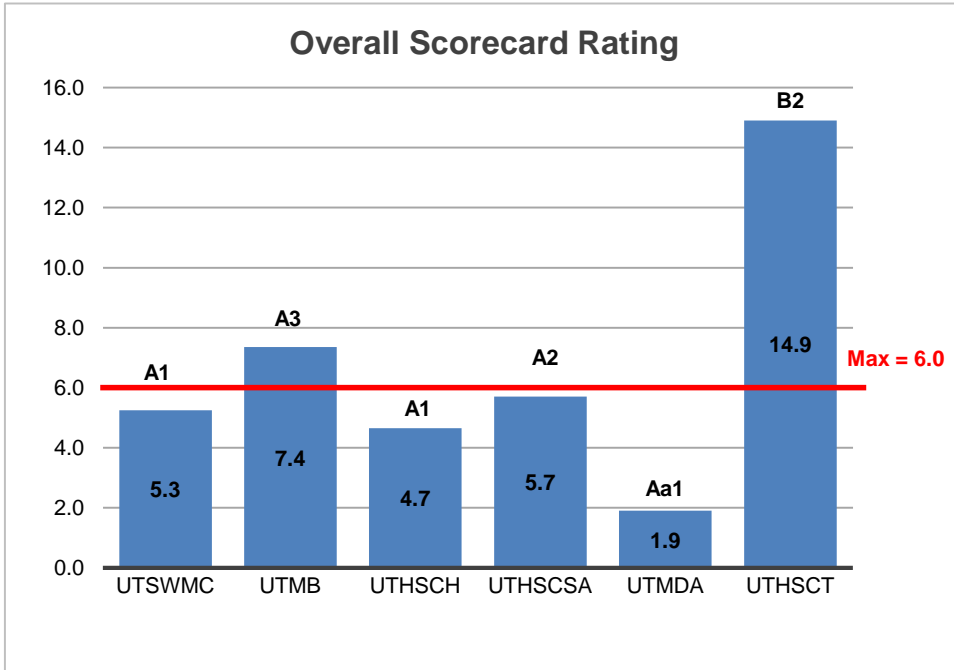


UTPB Action Plan (cont.)

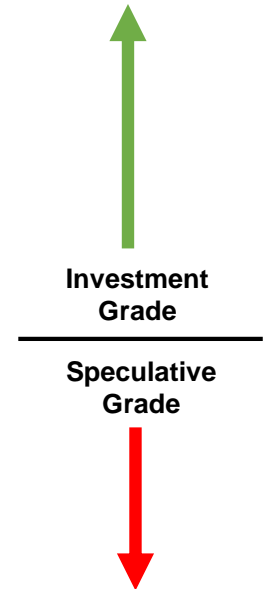
Strategic Initiative	Anticipated Financial Impact	Anticipated Date
<p><u>Research:</u></p> <ul style="list-style-type: none"> Increased funds for sponsored programs significantly over the last two years \$5.22M received in outside grants in FY19 \$2.93M in STARS grants awarded in FY19 - attracted high-caliber researchers STARS providing potential to generate more outside funding 	<ul style="list-style-type: none"> Estimated increase to grants funding of 25% About \$1.5M more per year in outside awards Conservatively, \$375K in new indirect cost revenue Improved cash flow and net position 	<ul style="list-style-type: none"> Financial impact for the fiscal year ending August 31, 2020
<p><u>Partnerships- Current:</u></p> <ul style="list-style-type: none"> Odessa and Midland College Transfers UTHSC-Houston - MBA health Texas Tech – Nursing Collaborative Permian Strategic Partners – College of Business University Lands – Engineering water research project Odessa and Midland development corporations UTEP/UTPB joint research in water/energy <p><u>Potential</u></p> <ul style="list-style-type: none"> City of Odessa – tournament destination Real estate development – multiple potential partners Expand Midland campus – workforce training, business incubator, expand applied research (multiple partners) 	<ul style="list-style-type: none"> Partnerships provide the potential for enhanced revenue 	<ul style="list-style-type: none"> Fall 2020 with financial impact for the fiscal year ending August 31, 2021



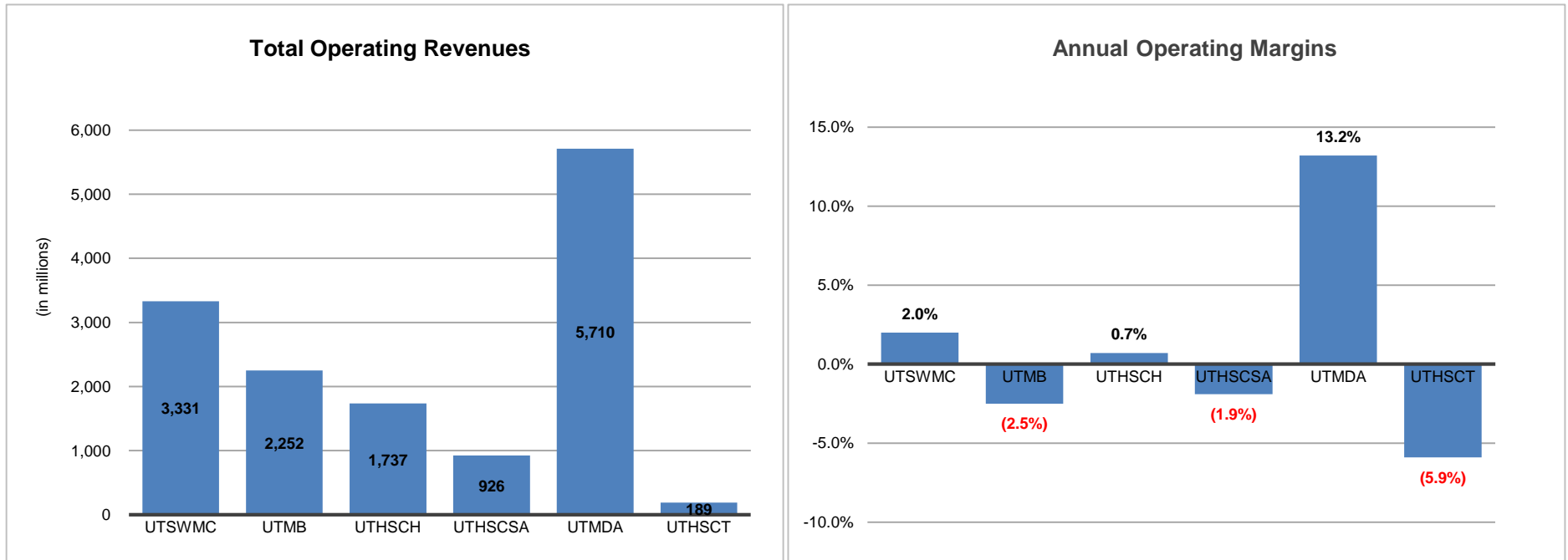
Health Institution Results - FY 2019



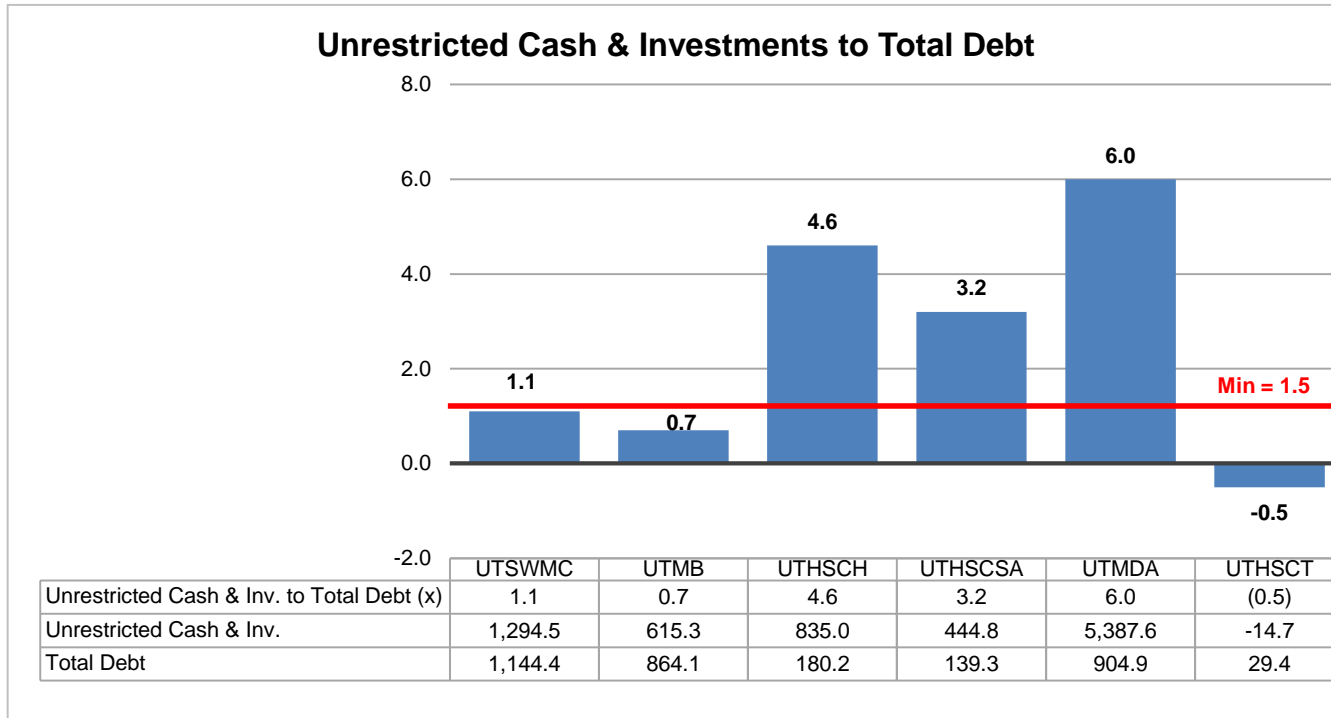
Scorecard Outcome	Aggregate Weighted Factor Score
Aaa	1.5
Aa1	1.5 - 2.5
Aa2	2.5 - 3.5
Aa3	3.5 - 4.5
A1	4.5 - 5.5
A2	5.5 - 6.5
A3	6.5 - 7.5
Baa1	7.5 - 8.5
Baa2	8.5 - 9.5
Baa3	9.5 - 10.5
Ba1	10.5 - 11.5
Ba2	11.5 - 12.5
Ba3	12.5 - 13.5
B1	13.5 - 14.5
B2	14.5 - 15.5
B3	15.5 - 16.5
Caa1 and below	> 16.5



Health Institution Results - FY 2019 (cont.)



Health Institution Results - FY 2019 (cont.)



Summary – FY 2019

Institution	Satisfactory	Watch	Unsatisfactory
The University of Texas at Arlington	X		
The University of Texas at Austin	X		
The University of Texas at Dallas	X		
The University of Texas at El Paso	X		
The University of Texas Permian Basin		X	
The University of Texas Rio Grande Valley	X		
The University of Texas at San Antonio	X		
The University of Texas at Tyler	X		
The University of Texas Southwestern Medical Center	X		
The University of Texas Medical Branch at Galveston	X		
The University of Texas Health Science Center at Houston	X		
The University of Texas Health Science Center at San Antonio	X		
The University of Texas M. D. Anderson Cancer Center	X		
The University of Texas Health Science Center at Tyler	X		



2019 Analysis of Financial Condition

February 2020



***The University of Texas System
Office of the Controller***



THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition 2019

EXECUTIVE SUMMARY

The Analysis of Financial Condition (AFC) was performed by using financial information found in the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position. In addition, debt and interest expense are allocated to the individual institutions. In fiscal year 2019, the rating methodology was revised to align elements that are pertinent to Academic institutions independent of the factors used to analyze Not-For-Profit Healthcare institutions. All ratios calculated are commonly used by bond rating agencies, public accounting, and consulting firms.

The analysis includes a scorecard that uses broad factors with sub-categories of quantitative and qualitative characteristics as demonstrated in the grid below. A five-year historical view is provided for each sub-category for all institutions.

Broad Factors for Academic Institutions	Broad Factors for Healthcare Institutions
Market Profile <ul style="list-style-type: none"> • Operating Revenue • Annual Change in Operating Revenues • Strategic Positioning 	Market Position <ul style="list-style-type: none"> • Operating Revenue • 3-year Operating Revenue • Market Landscape
Operating Performance <ul style="list-style-type: none"> • Operating Cash Flow Margin • Maximum Single Revenue Contribution 	Operating Performance & Liquidity <ul style="list-style-type: none"> • 3-year Operating Cash Flow Margin • Gross Revenue from Combined Medicare & Medicaid • Cash on Hand • Financial Management & Reinvestment
Wealth & Liquidity <ul style="list-style-type: none"> • Total Cash & Investments • Spendable Cash & Investments to Operating Expenses • Cash on Hand 	Leverage <ul style="list-style-type: none"> • Unrestricted Cash & Investments to Total Debt • Total Debt to Cash Flow
Leverage <ul style="list-style-type: none"> • Spendable Cash & Investments to Total Debt • Total Debt to Cash Flow 	

In addition to the scorecard factors, a five-year historical analysis is provided for all institutions on the following ratios:

- Operating Revenue
- Annual Operating Margin
- Spendable Cash to Operating Expenses for Academic Institutions
- Spendable Cash & Investments to Total Debt for Academic Institutions
- Unrestricted Cash & Investments to Total Debt for Healthcare Institutions

The results of all calculations, the strategic positioning for academic institutions, and market landscape for health institutions, was collectively reviewed and discussed with executive vice chancellors and chief business officers at each institution to determine an annual financial evaluation.

The table on the following page provides a summary of the overall scorecard rating for all institutions.



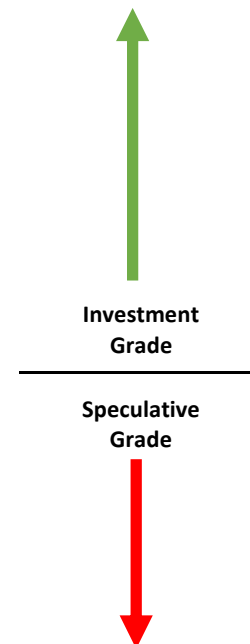
THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

Institution	FY 19 Overall Scorecard Rating
Academics	
The University of Texas at Arlington	Aa2
The University of Texas at Austin	Aa1
The University of Texas at Dallas	Aa2
The University of Texas at El Paso	Aa3
The University of Texas Permian Basin	Baa3
The University of Texas Rio Grande Valley	A1
The University of Texas San Antonio	Aa3
The University of Texas at Tyler	Aa3
Healths	
The University of Texas Southwestern Medical Center	A1
The University of Texas Medical Branch at Galveston	A3
The University of Texas Health Science Center at Houston	A1
The University of Texas Health Science Center at San Antonio	A2
The University of Texas M. D. Anderson Cancer Center	Aa1
The University of Texas Health Science Center Tyler	B2

Scorecard Outcome	Aggregate Weighted Factor Score
Aaa	1.5
Aa1	1.5 - 2.5
Aa2	2.5 - 3.5
Aa3	3.5 - 4.5
A1	4.5 - 5.5
A2	5.5 - 6.5
A3	6.5 - 7.5
Baa1	7.5 - 8.5
Baa2	8.5 - 9.5
Baa3	9.5 - 10.5
Ba1	10.5 - 11.5
Ba2	11.5 - 12.5
Ba3	12.5 - 13.5
B1	13.5 - 14.5
B2	14.5 - 15.5
B3	15.5 - 16.5
Caa1 and below	> 16.5



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Analysis of Financial Condition

2019

EXHIBIT 1

ACADEMIC INSTITUTIONS SCORECARD

Broad Factors	Factor Weighting	Sub-Factors	Sub-Factor Weighting
Market Profile	20%	Operating Revenue	15%
		Annual Change in Op. Revenue	5%
		Strategic Positioning	0%
Operating Performance	30%	Operating Cashflow Margin	20%
		Max Single Revenue Contribution	10%
Wealth & Liquidity	30%	Total Cash & Investments	15%
		Spendable C&I to Op. Expenses	10%
		Cash on Hand (days)	5%
Leverage	20%	Spendable C&I to Total Debt	10%
		Total Debt to Cash Flow	10%

After calculating each sub-factor, the outcomes are mapped to a broad rating typically used by bond rating agencies.



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Analysis of Financial Condition

2019

EXHIBIT 2

HEALTHCARE INSTITUTIONS SCORECARD

<i>Broad Factors</i>	<i>Factor Weighting</i>	<i>Sub-Factors</i>	<i>Sub-Factor Weighting</i>
<i>Market Profile</i>	35%	Operating Revenue	25%
		3-year Operating Revenue (CAGR)	10%
		Market Landscape	0%
<i>Operating Performance & Liquidity</i>	35%	3-year Avg Operating Cash Flow Margin	15%
		Gross Rev of Comb Medicare & Medicaid	10%
		Cash on Hand (days)	10%
		Financial Mgmt & Reinvestment	0%
<i>Leverage</i>	30%	Unrestricted Cash & Inv to Total Debt	15%
		Total Debt to Cash Flow	15%

After calculating each sub-factor, the outcomes are mapped to a broad rating typically used by bond rating agencies.



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas at Arlington 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

As a Carnegie R-1 “Very High Research,” The University of Texas at Arlington (U. T. Arlington) is committed to access and excellence and is poised to be Texas’ next NRUF Tier One institution. U. T. Arlington strives to maintain a very high level of affordability while ensuring transformative educational experiences for our students.

U. T. Arlington’s Strategic Plan “Bold Solutions|Global Impact” charts an ambitious agenda with the goal of ensuring the university will be one of the “best of the best”, a thought leader, and an institution that sets standards for others to follow. With a focus on enabling a sustainable megacity and developed around four themes of (1) Health and the Human Condition, (2) Sustainable Urban Communities, (3) Global Environmental Impact, and (4) Data-Driven Discovery, the plan fosters the collaborative and cross-disciplinary thinking that the future demands and will help U. T. Arlington address the epic challenges that face the community – an urgent calling as the Dallas-Fort Worth-Arlington Metropolitan Area with over seven million people today rapidly approaches megacity status.

U. T. Arlington developed the FY 2019 budget with a focus on meeting the objectives of the strategic plan and continuing progress toward Tier 1 status while simultaneously meeting aggressive student success and student support goals, increased access through additional investment in the scholarship budget, a commitment to faculty and staff recruitment and retention, increased advising opportunities, additional dollars for renovation of critical campus spaces and expenses due to enrollment growth. The FY2019 budget also set the stage for U. T. Arlington to achieve critical NRUF Tier One metrics and manage continued growth in full-time equivalent student enrollment of 34,678 in Fall 2019, up from 34,174 in Fall 2018.

Observations

Overall Scorecard Rating –U. T. Arlington is ranked as Aa2 bond rating with a 2.7 score. The rating is made of four factors: Market Profile, Operating Performance, Wealth and Liquidity, and Leverage. Market profile score is .50 which is attributable to strong operating revenue with 9% growth over FY 18 to provide a strong strategic position for U. T. Arlington. The operating cash flow margin has consistently been about 16% resulting in 1.20 Operating Performance for the last five years. The Total Wealth and Liquidity is .60 and includes the spendable cash and investments to operating expense ratio as well as reflects U. T. Arlington has cash on hand to cover 13 months of operating expenses. Debt Leverage ratio is .40 which is attributable to 2.55 times spendable cash to debt and debt to cash flow 2.4. Overall U. T. Arlington is financially strong and well positioned for strategic opportunities of academic excellence and global research.



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas at Arlington (continued)

Operating Revenue – U. T. Arlington’s operating revenue increased \$54.8 million in 2019. The increase is primarily attributable to operating activities in designated funds, which were partially driven by a 2% increase in enrollment on campus and in accelerated online programs, as well as a tuition rate increase approved by The University of Texas System Board of Regents. The increase in total operating revenues was primarily due to the following: an increase of \$15.4 million in net tuition and fees due to enrollment growth and increased tuition rates and auxiliary enterprises revenue resulting from higher demand in housing, parking, and dining services; an increase of \$6.3 million in sales and service primarily from designated activity; an increase of \$7.9 million in gifts as charitable trust and endowed chairs; an increase in net investment income (excluding realized gains and losses) of \$2.8 million; an increase of \$9.9 million in sponsored programs revenue (including non-exchange sponsored programs) due to additional funding for research received in 2019; an increase of \$7.2 million in other operating revenue, due primarily to an adjustment made in FY18 for duplicated program income recorded in prior years; and \$5 million increase in state appropriations, net of Tuition Revenue Bonds, primarily from state funded benefits and Hazelwood transfers.

Annual Operating Margin Ratio – U. T. Arlington’s annual operating margin ratio increased from 4.5% for 2018 to 5.6% for 2019 because of the growth in total operating revenues of \$54.8 million, as discussed above, far exceeding the growth in total operating expenses of \$43.8 million. Total operating expenses increased largely due to the following: a \$23 million increase in salaries, wages and payroll related costs attributable to normal salary adjustments and faculty research hires; a \$5.3 million increase in other contracted services; a \$2.9 million increase in materials and supplies primarily driven by an increase in non-capitalized expenses for furniture and equipment; \$2.7 million from repairs and maintenance primarily for general care of buildings and roadways; \$4 million for other expenses primarily for other job training expenses by Enterprise Development; and a \$4.4 million increase in depreciation primarily attributable to SEIR and West Campus Dining completion.

Spendable Cash & Investments to Operating Expenses Ratio – U. T. Arlington’s spendable cash and investments to operating expenses remained comparable at 1.05 times for 2019 and 1.0 times for 2018. Cash and investments (net of nonexpendable position) was \$682 million compared to operating expenses of \$652 million in 2019. Cash and investments net of nonexpendable cash was \$607 million compared to operating expenses of \$605 million in 2018. Cash and investments increased \$79.1 million offset by the increase in non-operating position increase of \$4.2 million for a net change of \$74.9 million. The changes in operating expenses are discussed in annual operating margin ratio above.

Spendable Cash & Investments to Total Debt Ratio – U. T. Arlington’s spendable cash and investments to total debt ratio remained comparable at 2.55 times in 2019 compared to 2.30 times in 2018. The stability of this ratio was attributable to the growth in total cash and cash equivalents and investments (net of total nonexpendable net position) of \$74.9 million offset by an increase of \$3.1 million in the amount of debt outstanding. This ratio exceeded the minimum threshold provided by the Office of Finance of 0.75 times.



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

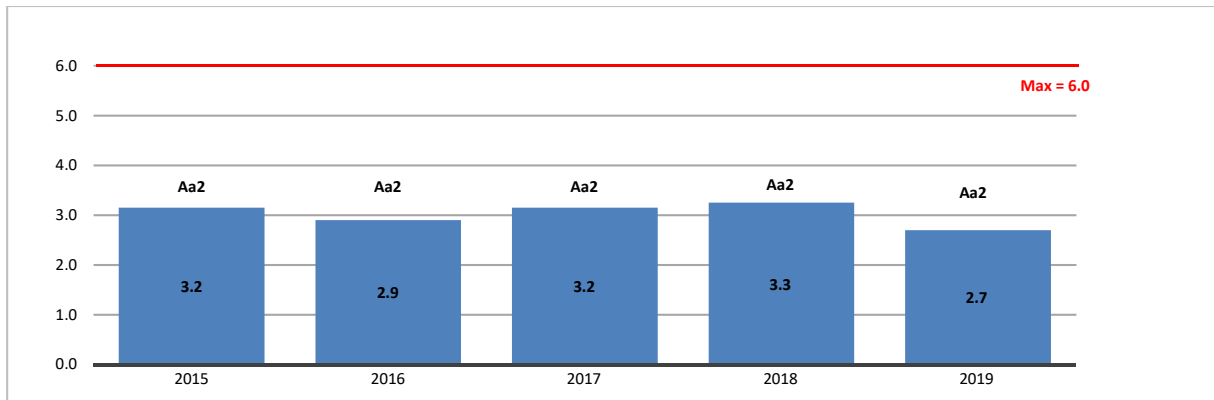
Analysis of Financial Condition

2019

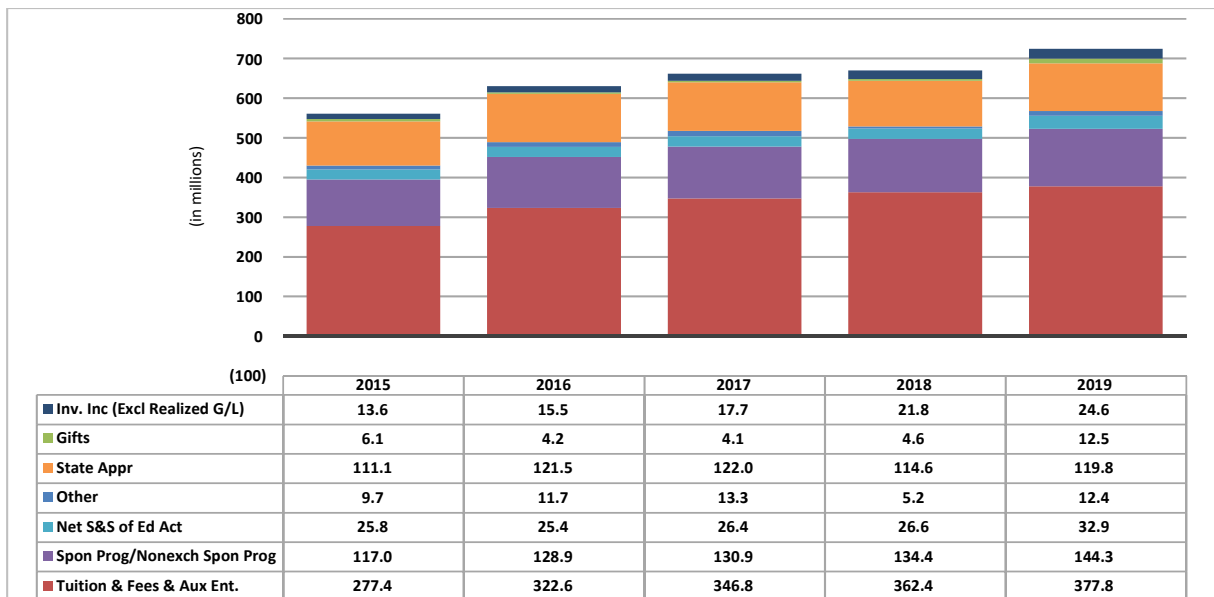
The University of Texas at Arlington (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



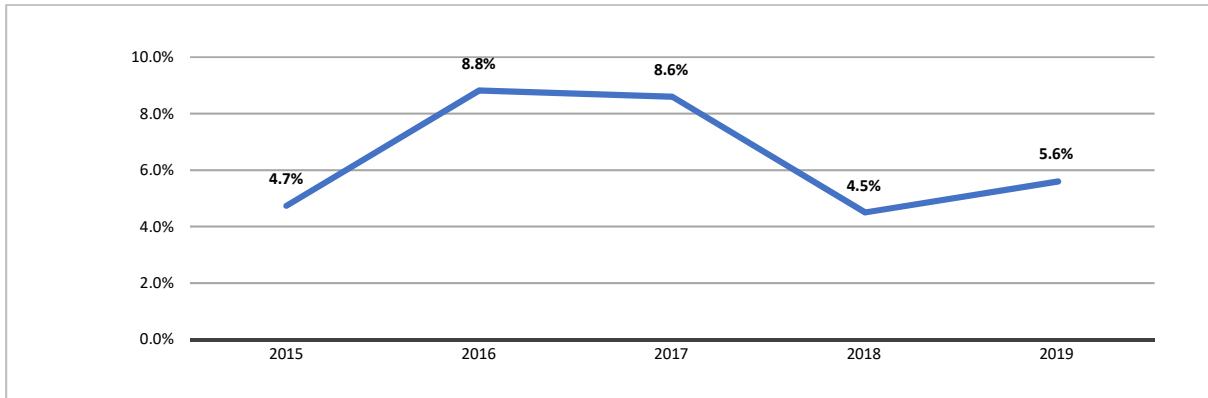
THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

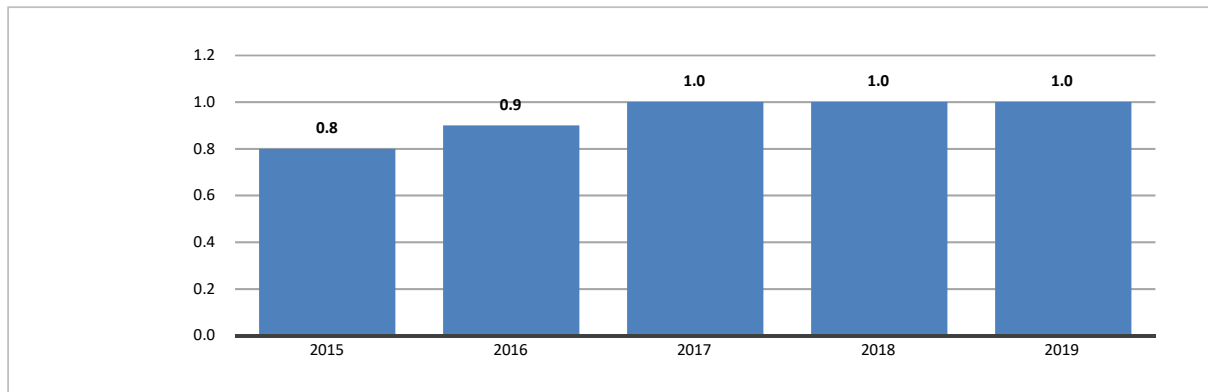
2019

The University of Texas at Arlington (continued)

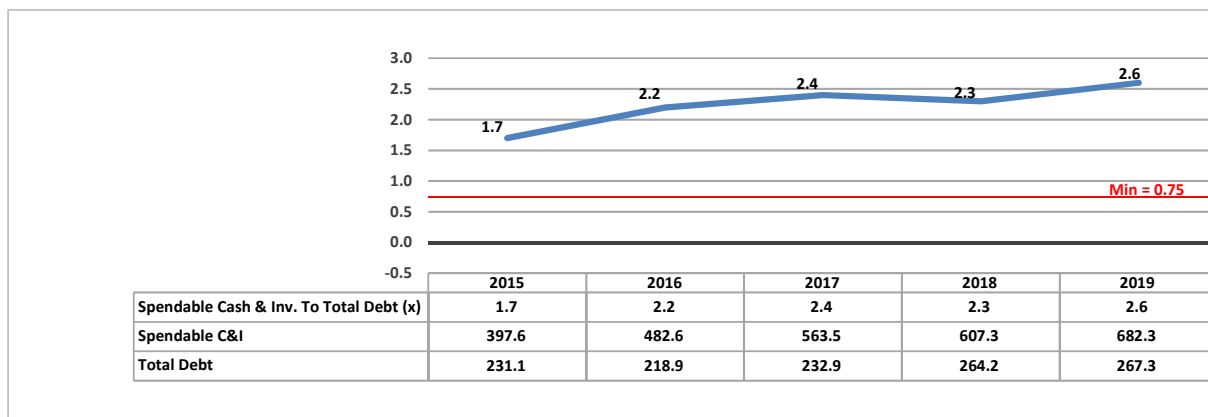
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas at Austin 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas at Austin (U. T. Austin) continues to receive accolades for its top-ranked academics. It is one of the top 20 public universities according to U. S. News & World Report, with the No. 1 accounting, Latin American history and petroleum engineering graduate programs in the country — plus more than 15 undergraduate programs and more than 40 graduate programs ranked in the top 10 nationally.

Student Success is a key U. T. Austin focus. U. T. Austin continues to focus on graduation rates, and the current four-year graduation rate is 69%. The University of Texas System Board of Regents established a \$160 million endowment from the Permanent University Fund to expand financial aid for middle and low-income U. T. Austin students as part of the Texas Advance Commitment. Starting in fall semester 2020, in-state undergraduate students with need from families that earn up to \$65,000 a year will receive financial assistance to completely cover their tuition. And students with financial need from families with incomes up to \$125,000 will also receive some amount of assured financial aid. U. T. Austin also purchased the 2400 Nueces building in 2019 to be able to add more housing for students to removing barriers that are potentially presented by Austin's housing rates.

Additionally, progress continues on Texas One Stop, a new center for campus enrollment services, where students will quickly and easily access the information and services they need — including registration, financial aid, student records, etc. The Texas One Stop website launched in November 2019, and the physical location is expected to open on the ground floor of the Main Building in Spring 2020.

U. T. Austin recently announced its new Honor Texas initiative. The purpose of the initiative is to focus on, and provide a forum for, discussing ethics and integrity in everything we do at U. T. Austin.

Observations

U. T. Austin's overall financial position appears to have remained relatively constant in the last five years. Revenues have kept pace with increasing operating expenses through strategic investing (moving funds from STF and ITF to LTF), increases in development/gift receipts, and higher tuition revenue. Operating margin continues to trend downward overall, but at a minimal rate over the last three years. Spendable cash margins have had very slight upticks in the last three years, again reflective of strategic investment initiatives and desirable market returns.



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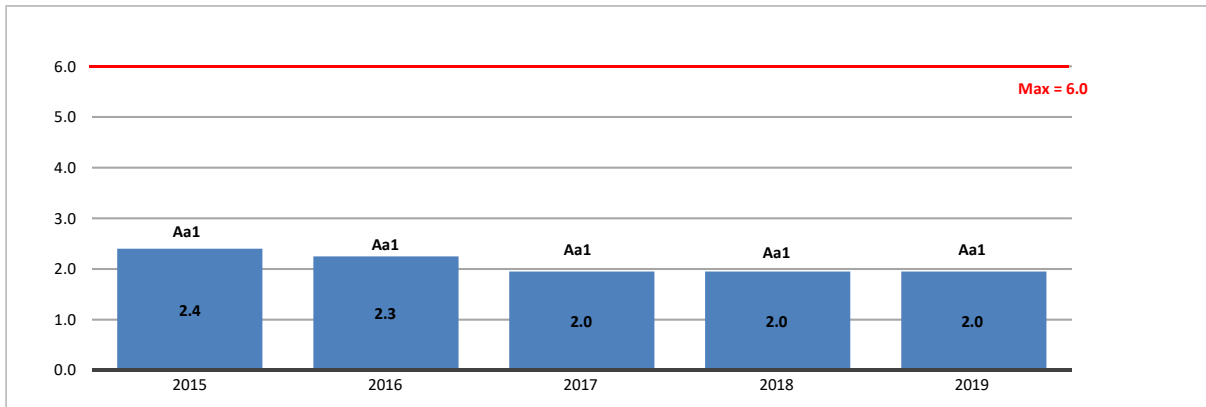
Analysis of Financial Condition

2019

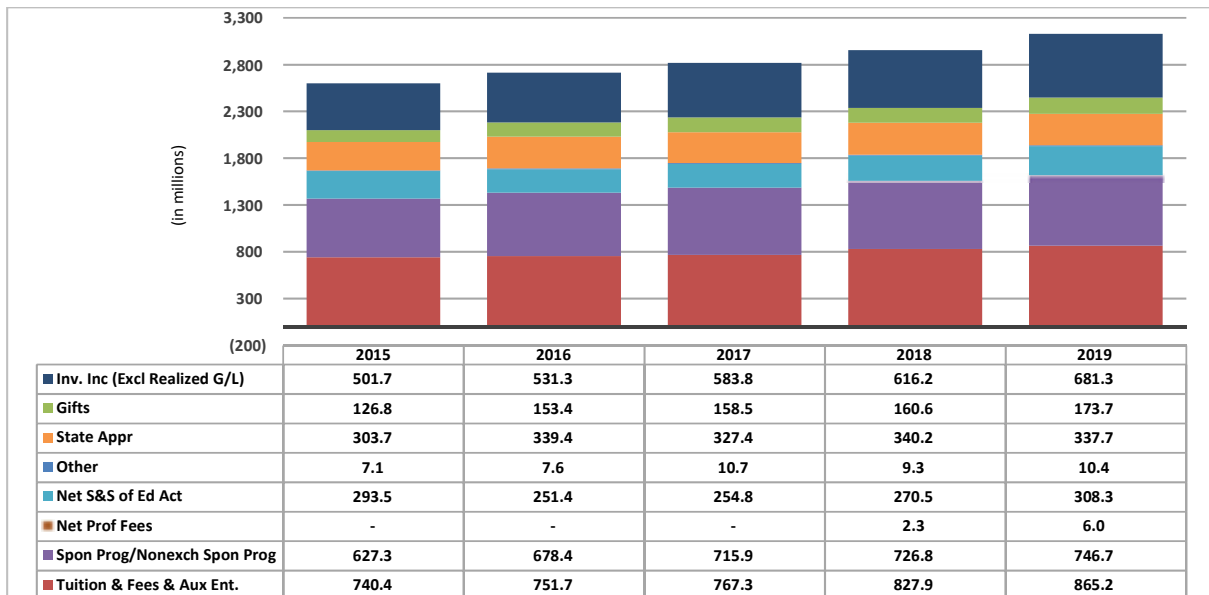
The University of Texas at Austin (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



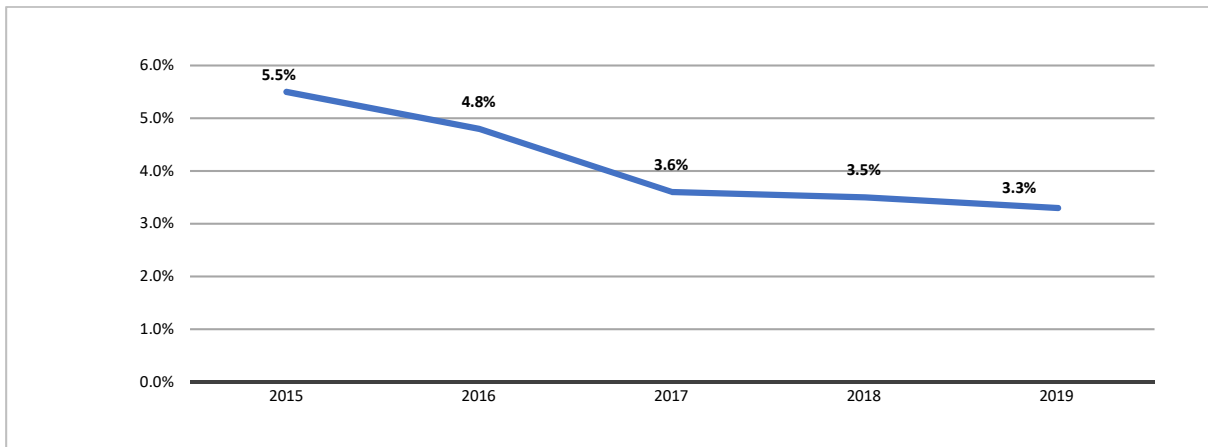
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Analysis of Financial Condition

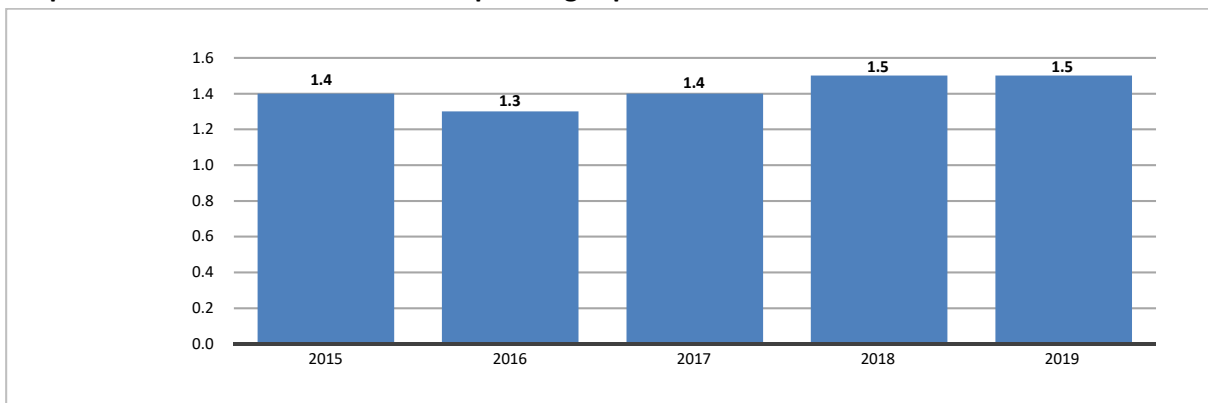
2019

The University of Texas at Austin (continued)

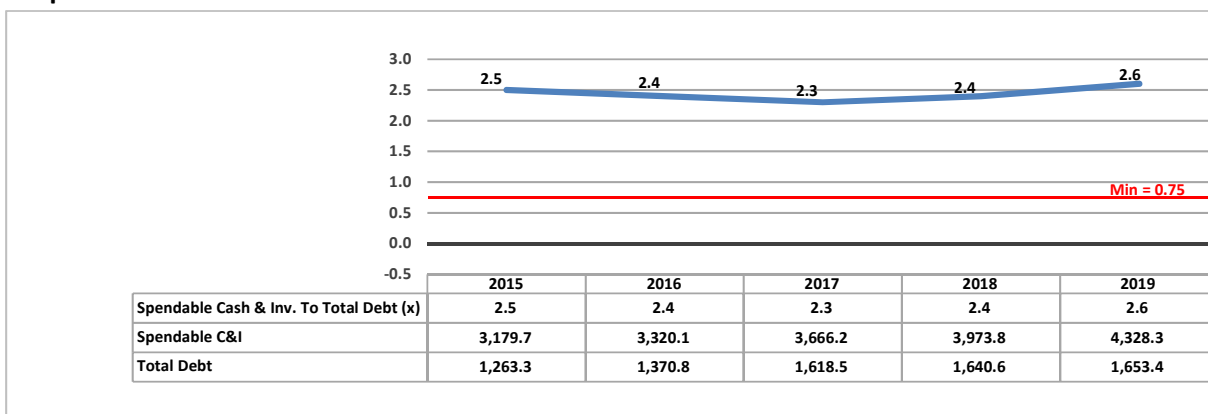
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



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Analysis of Financial Condition

2019

The University of Texas at Dallas 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

2019 was a year of progress, confirmative outcomes, and continued planning for a maturing university.

The University of Texas at Dallas (U. T. Dallas) is a young, vibrant, rapidly growing, and rapidly improving university strategically positioned within one of the nations' largest and most vibrant metropolitan areas. Student success metrics are consistently among the top three public universities in Texas, while operating with fewer resources per student. Similarly, U. T. Dallas' student success metrics are comparable, although lower on average, than national aspirational peers.

U. T. Dallas continues to experience overall enrollment growth with undergraduate enrollment as the major contributor. Undergraduate degrees awarded also continue to grow as a result of student retention and success rates that trail only Texas A&M University and U. T. Austin.

Increasing the number of tenured and tenure track faculty, while coupling strong enrollment growth with effective retention and student success programs, continues to be a top priority. Achieving these outcomes while improving the financial position is a challenge U. T. Dallas is engaging head-on.

U. T. Dallas has high aspirations and an aggressive expansion plan. A rolling five-year financial planning document is maintained in support of the strategic plan and U. T. Dallas' ascent to national prominence. The plan currently reflects funding needs of approximately \$30M per year, for the next five years, to completely finance U. T. Dallas goals. Prudent and routine tuition increases, coupled with enrollment growth and planned internal reallocations, will provide crucial resources to support priorities and move U. T. Dallas forward while improving the financial condition.

U. T. Dallas has risen to the cusp of becoming an elite, nationally recognized, public university. With the assistance of U. T. System and U. T. System Board of Regents, U. T. Dallas has built the necessary infrastructure for this burgeoning research campus to thrive.

Observations

U. T. Dallas continues to operate within a narrow, consistent range and maintains a healthy ranking for the Overall Scorecard Rating. Operating Revenue trends have demonstrated consistent growth into 2019. The slight decline in tuition and fee growth is the result of a change in reporting methodology and is offset by a corresponding increase in sales and services of education activities. Operating costs have negatively impacted the Net Margin for several years as U. T. Dallas made significant investments in academic facilities, infrastructure, and the recruitment and retention of outstanding faculty and students.

The Net Margin is regularly monitored to ensure that U. T. Dallas objectives can be met while simultaneously returning this metric to equilibrium. In 2019, U. T. Dallas realized a planned tempering of operating expense growth which led to modest improvements in the Net Margin and Spendable Cash and Investments to Operations measures. Similarly, deliberate and concerted efforts to limit issuances of new debt led to improvement in the Spendable Cash and Investments to Total Debt ratio. U. T. Dallas realized a decrease in debt service and a decrease in total outstanding debt for the second consecutive year in 2019.

U. T. Dallas leadership will continue to focus on balancing the need to maintain a strong financial position while pursuing aspirational goals.



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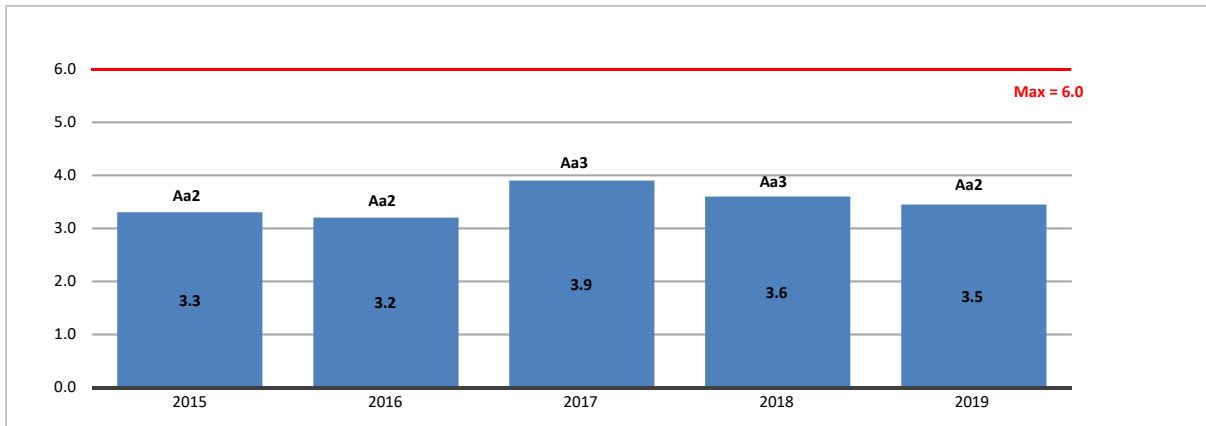
Analysis of Financial Condition

2019

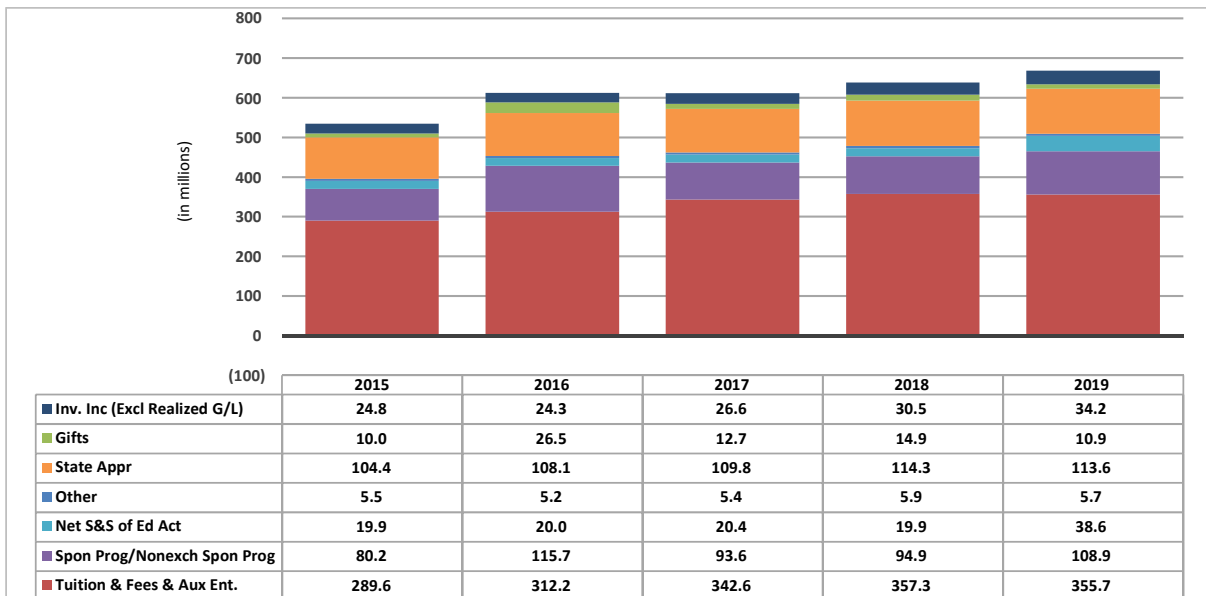
The University of Texas at Dallas (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



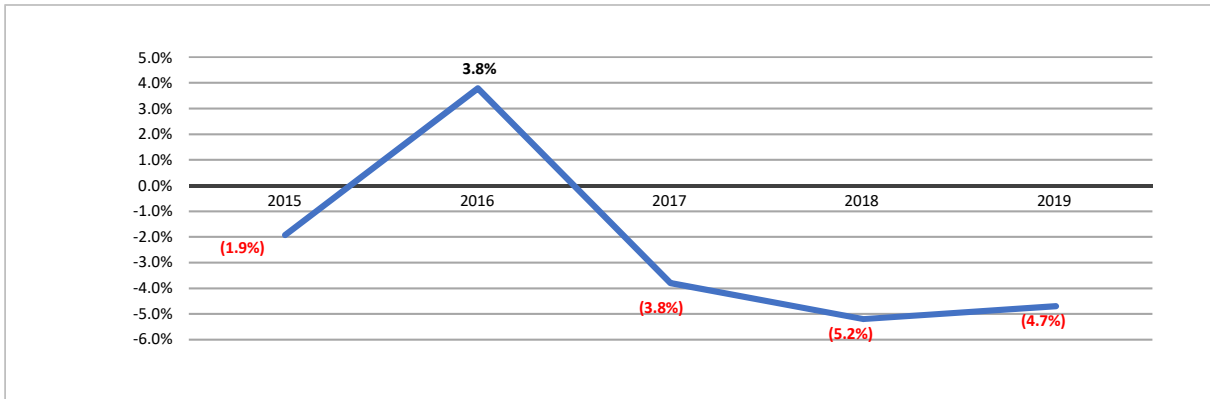
THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

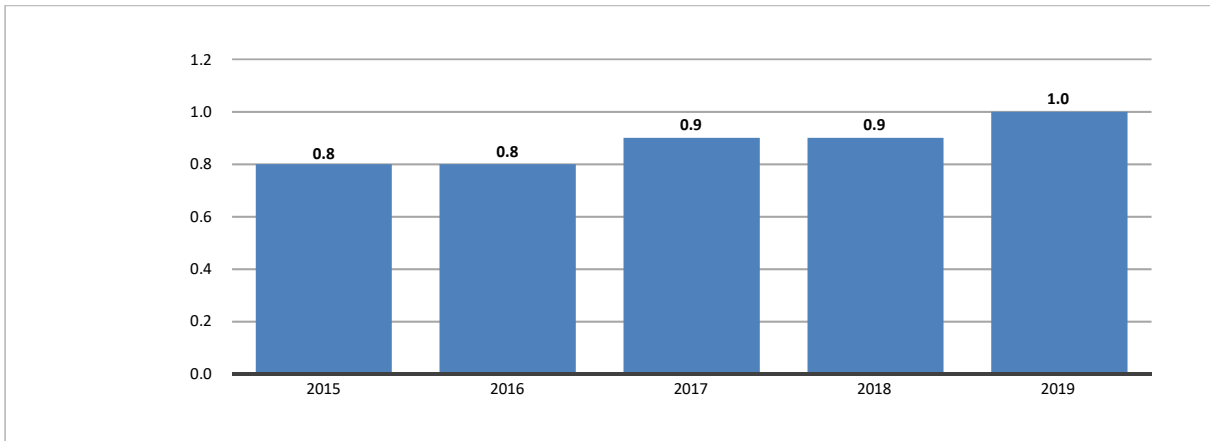
2019

The University of Texas at Dallas (continued)

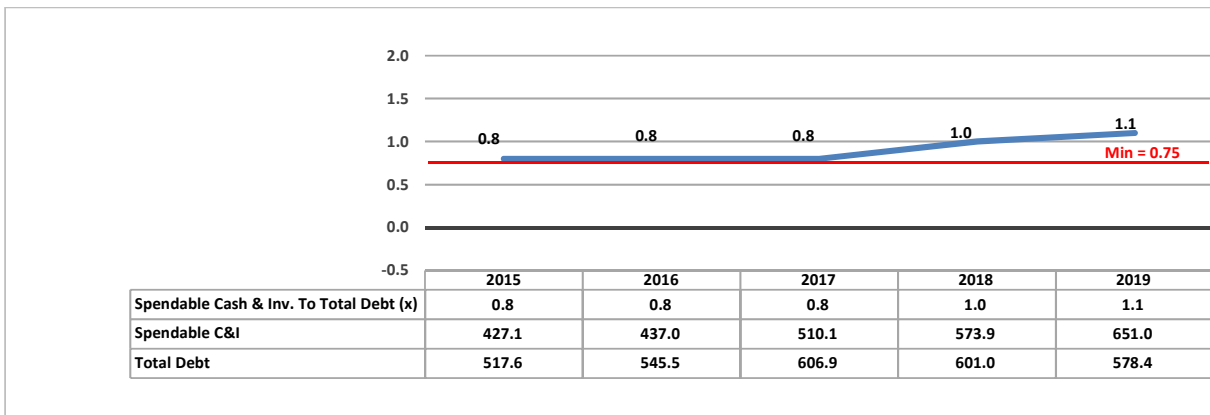
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

2019

The University of Texas at El Paso 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

Serving a binational, bicultural population of 2.4 million on the U.S.-Mexico border, The University of Texas at El Paso (U. T. El Paso) remains focused on its core mission to provide access to excellent education for the community we serve. The U. T. El Paso community continues to work together to advance discovery of public value and to strengthen U. T. El Paso's positive social and economic impact on the region.

U. T. El Paso has seen 21 years of consecutive growth in enrollment, with Fall 2019 numbers reaching a record 25,177 students - 21,427 undergraduate; 2,701 graduate; and 1,046 doctoral and specialist degree candidates.

U. T. El Paso has also experienced a 137% growth in degrees awarded, setting another record of 5,049 degrees for the 2018-2019 academic year.

These increases in opportunities and outcomes are a direct result of the collaborative partnerships that U. T. El Paso holds with area school districts, El Paso Community College and the greater Paso del Norte community to facilitate a college-going culture among the region's K-12 population and their families. Region 19 now leads the state in high school graduation rates and in the number of high school graduates who go on to college, with only 5% of all graduates in the region enrolling in colleges out of state.

To meet the area's higher education needs, U. T. El Paso provides competitive research and academic opportunities at one of the most reasonable prices for a top-tier university in America. Sustaining this successful model is paramount to the growth and prosperity of the region, and U. T. El Paso is engaged in opportunities to increase access pathways and secure our place as a leading 21st century university through several strategic initiatives that include:

- doubling our more than \$100 million in research expenditures for long-term retention of our status as an exceptional comprehensive public research university,
- capitalizing on innovation and new clusters of research cohorts that can foster business development and enhance the region's entrepreneurial culture,
- creating innovative partnerships that spur economic growth,
- broadening our engagement with the community to create deeper ties with our alumni, our prospective student population, our civic leaders and area industry, and
- building a strong culture of philanthropy to ensure sustained private support of scholarships and programming.

U. T. El Paso remains committed, as we have been throughout our more than 100-year history, to working closely with the community we serve in an effort to better understand, meet and support its educational and economic needs, and to create pathways for economic and social mobility for people throughout the El Paso region.



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Analysis of Financial Condition

2019

The University of Texas at El Paso (continued)

Observations

Overall, U. T. El Paso saw an improvement of its yearly metrics.

- At 4.5, the overall scorecard maintains U. T. El Paso's Aa3 rating. U. T. El Paso has consistently maintained an Investment grade rating in the upper tier of the scale, signaling the overall strength of its financial position.
- Operating revenues increased through a combination of growing enrollment, a U. T. System Board of Regents approved increase of 4.5% in tuition and fees, increases in college differential tuition and Auxiliaries income from higher grossing special events.
- Annual Operating Margin keeps trending towards a positive margin and shows a favorable improvement over the results of the previous two fiscal years. The growth of total operating revenues, combined with stricter expense control and permanent campus-wide budget reductions, resulted in a year-to-year improvement of 14% over FY18.
- Spendable Cash & Investments to Operating Expenses has held steady for the last 3 fiscal years.
- Spendable Cash & Investments to Total Debt Ratio is on a four-year improvement trend that significantly puts it over the minimum threshold provided by the Office of Finance. Currently at 1.9, the ratio exceeds the 0.75 threshold. U. T. El Paso has been able to improve its spendable cash position, while paying off older debt used for campus expansion and by limiting additional debt.



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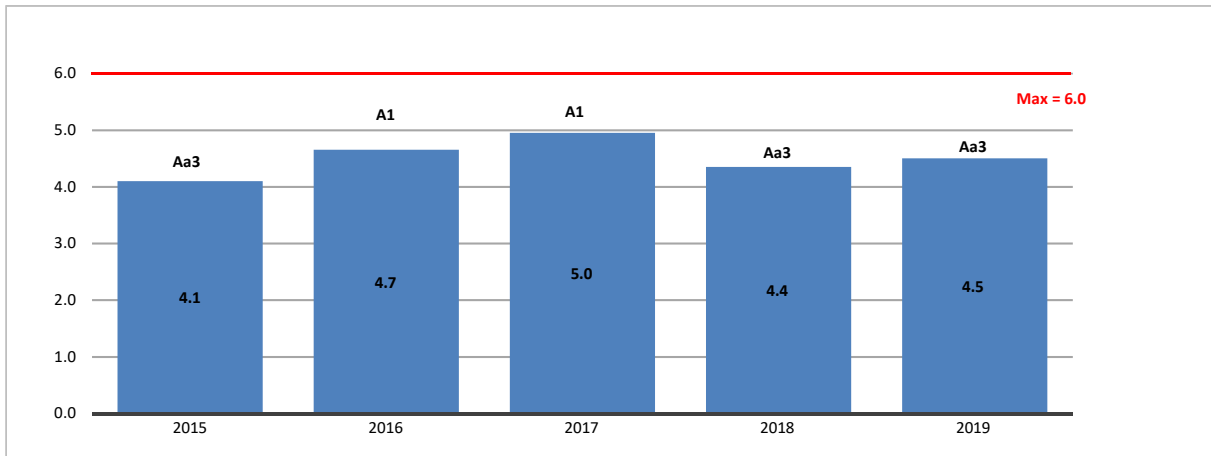
Analysis of Financial Condition

2019

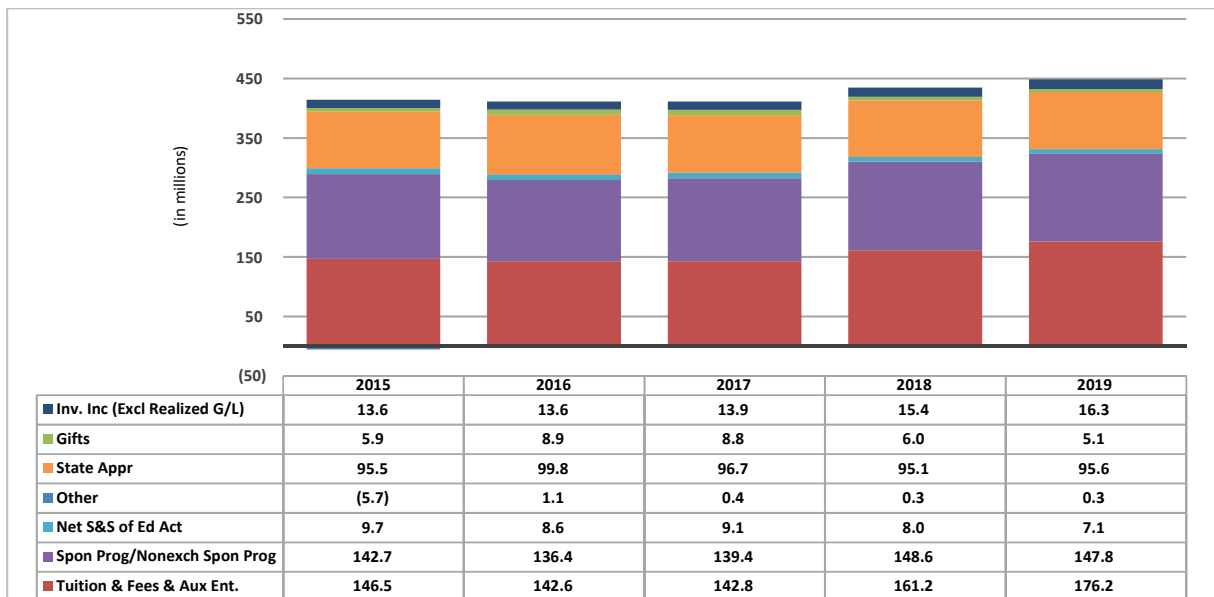
The University of Texas at El Paso (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



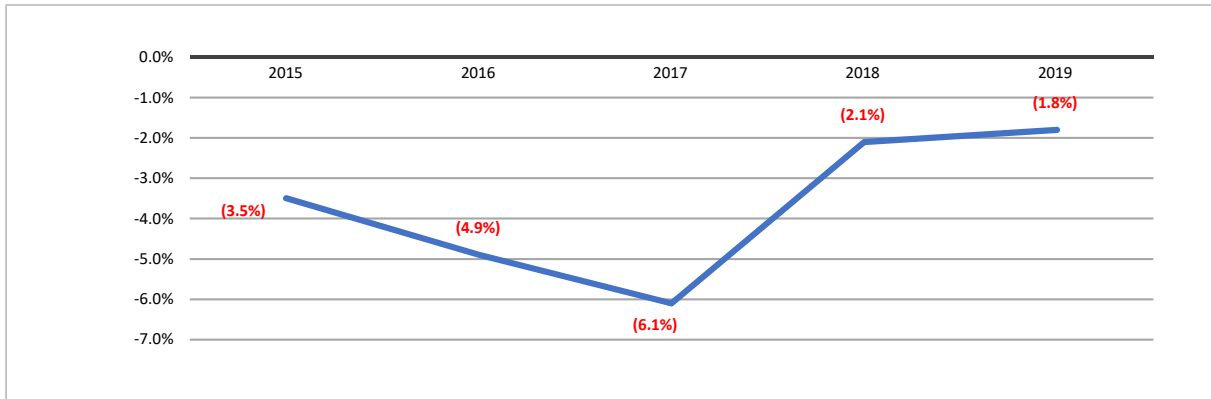
THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

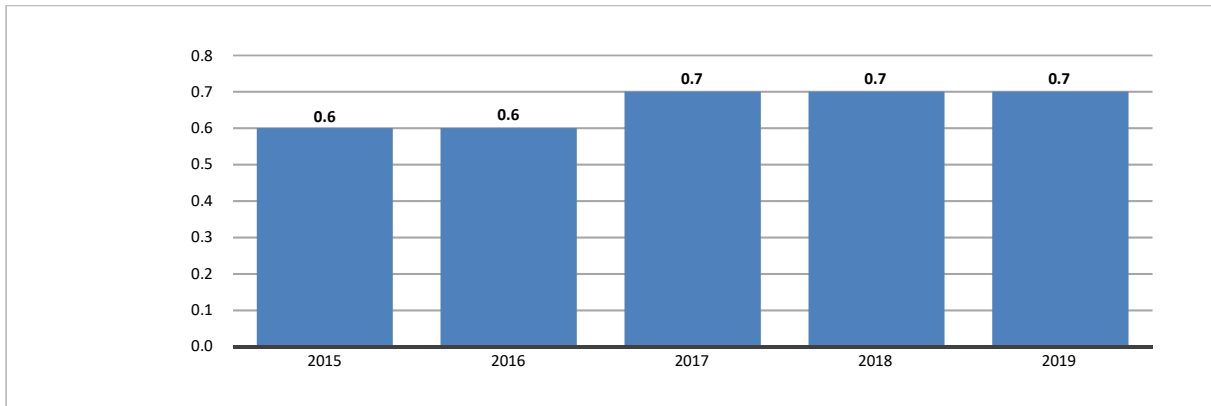
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The University of Texas at El Paso (continued)

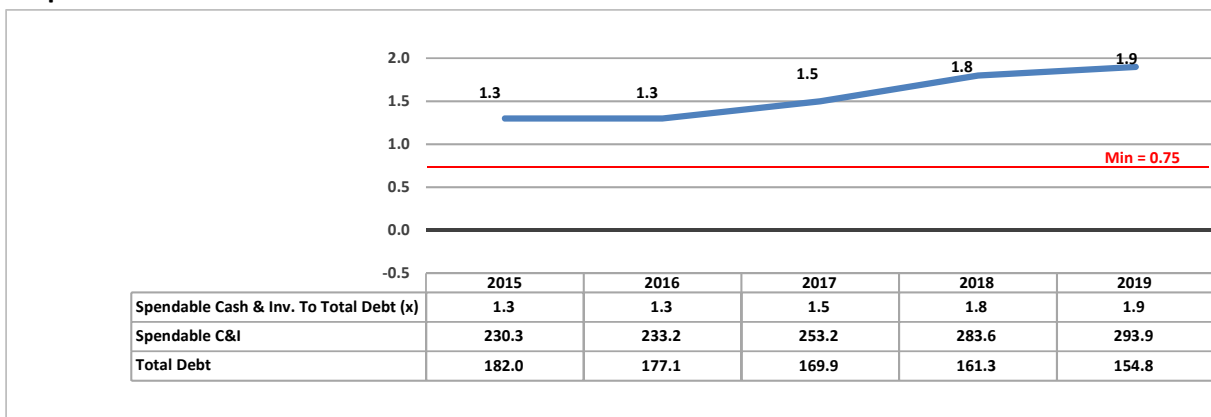
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



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Analysis of Financial Condition

2019

The University of Texas Permian Basin 2019 Summary of Financial Condition

Financial Condition: Watch

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Permian Basin (U. T. Permian Basin) recently completed a new strategic framework that focuses primarily on increasing degree completion in the region and on increasing applied research and community outreach.

The focus on degree completion, as opposed to headcount growth, necessitated a change in enrollment strategy. In 2017, U. T. Permian Basin's headcount enrollment was 7,364 which included 2,248 high school dual credit students taking online courses at a price that did not cover the costs of providing the instruction. Furthermore, almost none of the high school dual credit students enrolled at U. T. Permian Basin after they graduated high school.

U. T. Permian Basin strategically increased the price of dual credit courses, which resulted in a significant decline in dual credit headcount enrollment (loss of 1,394 students). Despite the strategic enrollment rebalancing, which dropped enrollment to 5,283, tuition revenue has increased. The strategy of modest price increases combined with recruiting and retaining students who will graduate from U. T. Permian Basin is working. Degree completion in 2019 was at an all-time high with 1,375 graduates, 23% higher than the previous year. Traditional first-time student enrollments were up 7%.

Unique challenges:

- The cost of living increases in the Permian Basin are among the highest in the nation. The rapid growth in the economy has led to housing shortages and in many cases unaffordable housing.
- Unique oil boom economy leads many to choose working in the oil field as high school graduates can secure high paying jobs right out of high school. This negatively affects enrollment and retention.
- The cost of living also drives up market prices for faculty and staff; it is more expensive to maintain the skilled workforce needed at U. T. Permian Basin.
- Competitive threats in the region from Texas Tech and Texas A&M; both are moving in to offer Bachelor's degrees with more brand recognition.

Initiatives to overcome challenges:

- Continued investments in building a comprehensive enrollment management strategy (Noel Levitz consulting, adding technology and streamlining business processes and ERP systems, involving Deans and faculty in marketing and recruiting programs).
- Intensive focus on retention strategies to address oil boom related stop-outs, including a new degree plan initiative, a new advising system, ramping up early alert systems, and improving student services.
- Marketing efforts underway to increase brand recognition and more effectively target student populations, including reaching out to surrounding communities.
- Academic programs are undergoing performance reviews; low performing programs will be revamped or closed and new program innovations will be supported to address regional demands.
- Initiative to revamp financial aid strategy is in progress to maximize financial aid as a means to recruit and retain students.



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Analysis of Financial Condition

2019

The University of Texas Permian Basin (continued)

Observations

This past year U. T. Permian Basin accelerated an intensive effort to clean-up accounting and reporting mistakes from multiple previous years to define a more accurate baseline financial position. U. T. Permian Basin engaged Deloitte in the Spring of 2018 to conduct a readiness review to identify financial reporting inaccuracies. Weaver consultants were engaged to address and correct these identified issues from prior years and to prepare for the SACSCOC accreditation review.

This important clean-up effort is a necessary and positive step toward establishing an accurate baseline of the financial position of U. T. Permian Basin. The corrections of prior year mistakes have negatively affected the 2019 ratios, and the U. T. Permian Basin expects a few additional adjustments next year as the clean-up work is concluded.

Findings and corrections that were identified and addressed in the 2019 clean-up include:

- \$20.2 million in tuition and fee revenue was posted in error to 2018; this revenue belonged in 2019; thus, revenue in 2018 was overstated with a corresponding understatement in 2019. This timing correction of \$20.2 million between 2018 and 2019 was restated in the AFC calculations to show a more appropriate trend for 2019 exclusive of the remaining clean-up entries discussed below. The remaining clean-up entries affect multiple periods and are not timing related in nature.
- \$10.7 million of student refunds processed in 2018 and prior years were recorded as balance sheet entries instead of income statement entries. The correcting adjustment in 2019 reduced 2019 tuition and fees revenue. The reduction in revenue was included in the AFC.
- \$6.1 million of waivers and exemptions for 2018 and prior years were incorrectly posted to balance sheet accounts and should have been posted against the income statement. The correcting adjustment in 2019 reduced 2019 tuition and fees revenue. The reduction in revenue was included in the AFC.
- \$1.5 million of federal sponsored programs grant billings and grant transactions were brought up to date in 2019. The correcting adjustment in 2019 reduced 2019 federal sponsored programs revenues. The reduction in revenue was included in the AFC.

To gain an accurate understanding of U. T. Permian Basin's financial trend, it is important to view the ratios with and without the one-time adjustments. The ratios will be misleading without this context. The ratios correct significant overstatement of revenues from multiple prior years into one single year, 2019. This correction, while necessary, masks the real progress achieved in 2019. Consequently, it is important for contextual accuracy to show the ratios both with and without the adjustments. Deloitte is taking this approach by restating 2019 financials without the one-time adjustments for the SACSOC audit. The results of clean ratio analyses, net of the adjustments, are as follows:

- Operating revenues for 2019 would have been \$92.5 million (as opposed to \$74.2 million presented in the AFC) representing an \$18.3 million increase, 12.9% higher than 2017.
- Annual operating margin would be (10.9%), as opposed to (38.3%), an improvement over 2015, 2016, 2017, and 2018.
- The overall scorecard rating would be 4.6 which is consistent with 2017 (as opposed to 10.2 presented in the AFC). This correction would also adjust the rating from Baa3 to A1, consistent with 2017.

The prior period clean-up adjustments posted in 2019 is a positive sign that U. T. Permian Basin is identifying and addressing reporting inaccuracies that have lingered for many years. It is also good news that, minus the one-time adjustments, the actual operating revenue and operating margin have improved and the overall scorecard rating is holding steady with 2017. Tuition and fees, housing, meal plan and other operating revenues have improved 27.0% from 2016 to 2019, another indicator that the strategic actions taken in regards to rebalancing the enrollment portfolio, and implementing appropriate fees and charges is having a positive impact.



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Analysis of Financial Condition

2019

The University of Texas Permian Basin (continued)

U. T. Permian Basin is committed to continuing efforts to improve its financial position, and U. T. Permian Basin is aggressively tackling this challenge head on. U. T. Permian Basin has made progress, but more work is necessary.

U. T. Permian Basin is in the process of implementing all of the recommendations that emerged from the intensive accounting/financial audits and reviews. U. T. Permian Basin has already implemented most of the recommendations such as: establishing routines to complete timely reconciliations, reviewing and confirming all accounting transactions, following up on variances identified, training of all accounting staff, making the necessary system adjustments, and documenting the business practices that will prevent these errors from recurring in the future. Additional improvements will be completed in 2020 with the remaining adjustments that are identified.



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Analysis of Financial Condition

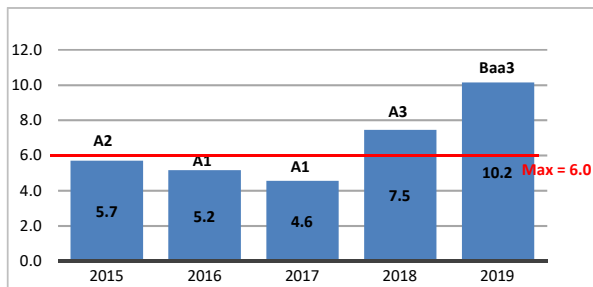
2019

The University of Texas Permian Basin (continued)

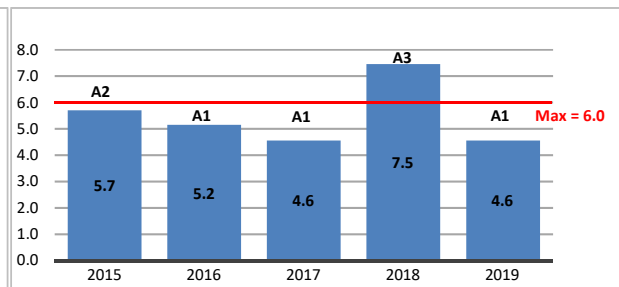
ANALYSIS OVERVIEW

Due to the efforts taken by U. T. Permian Basin to address inaccurate financial information reported in prior years, the ratios listed below depict two sets of analyses. The ratios on the left include a reduction of revenue for prior years' correcting entries. The ratios on the right remove the effect of all correcting entries. It should be noted that additional correcting entries will be necessary in 2020.

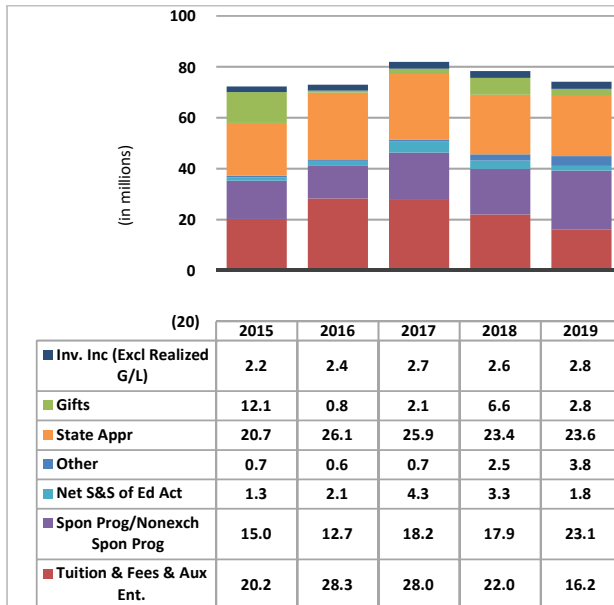
1. Overall Scorecard Rating



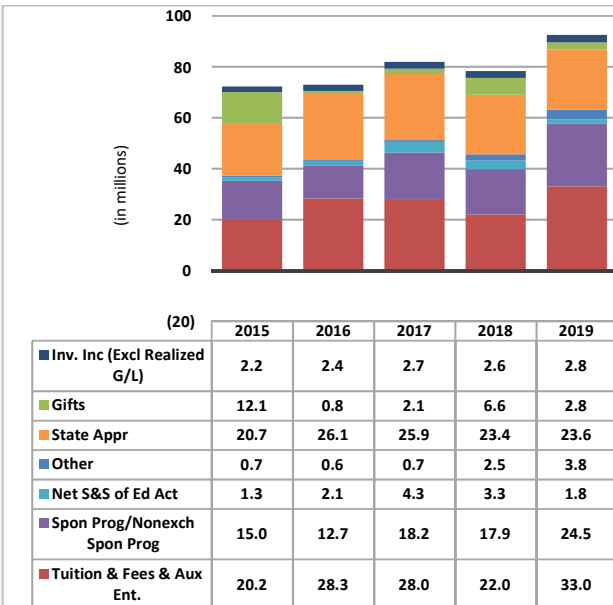
Overall Scorecard Rating Without Correcting Entries



2. Operating Revenues



Operating Revenues Without Correcting Entries



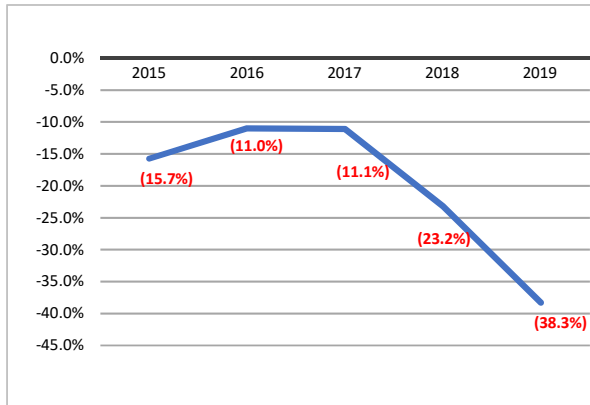
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Analysis of Financial Condition

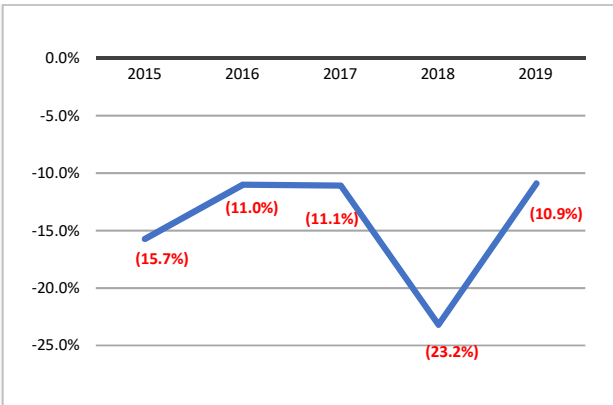
2019

The University of Texas Permian Basin (continued)

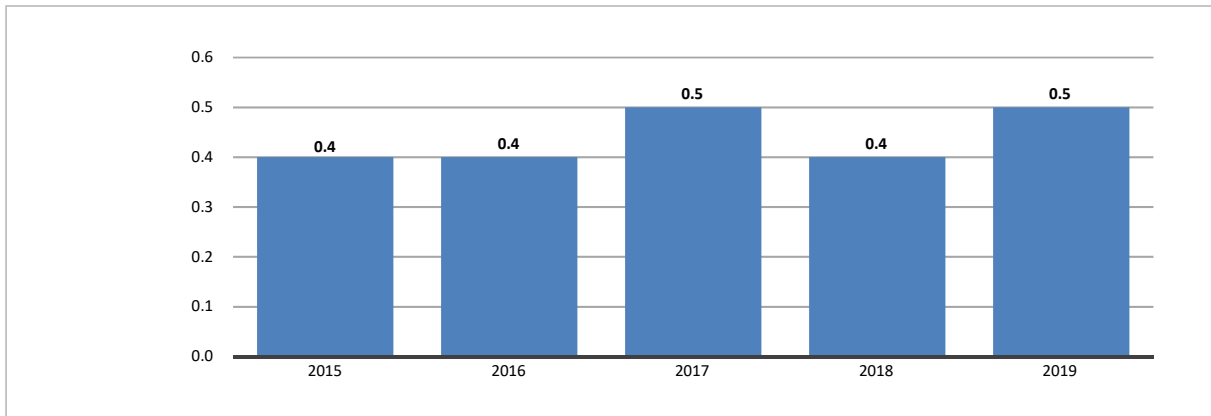
3. Annual Operating Margin



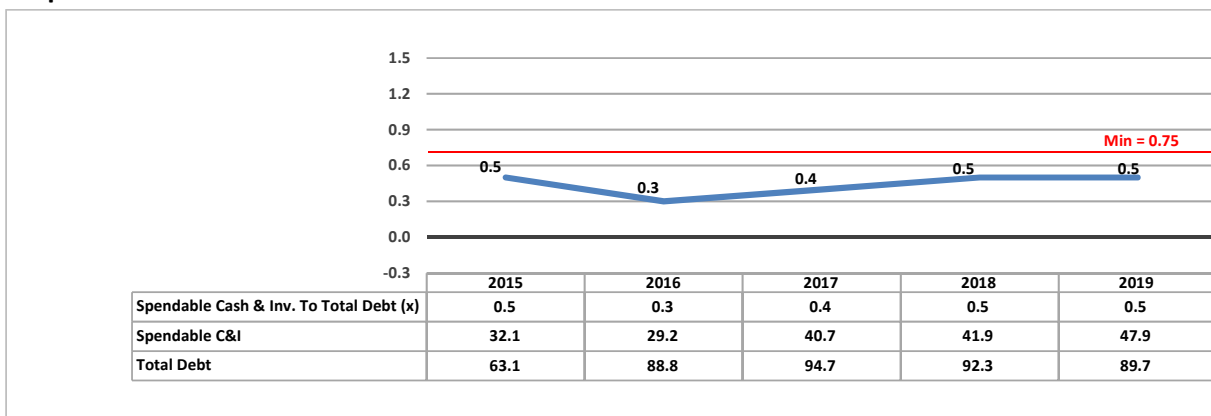
Annual Operating Margin Without Correcting Entries



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



THE UNIVERSITY OF TEXAS SYSTEM
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Analysis of Financial Condition

2019

The University of Texas Rio Grande Valley 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Rio Grande Valley (U. T. Rio Grande Valley) is committed to student success as demonstrated in the Strategic Plan's Core Priorities. The goal, "Support our students in achieving their academic goals in a timely manner and reaching their professional aspirations through excellent integrated learning experiences both in and out of the classroom," is evidence of U. T. Rio Grande Valley's commitment. U. T. Rio Grande Valley is focused on increasing fall to fall retention and timely progress to degree completion through proven high impact strategies such as differentiated advising, peer-led team learning, and student employment. Furthermore, U. T. Rio Grande Valley is increasing its commitment to provide merit scholarships to attract and retain the best students.

In addition, U. T. Rio Grande Valley is augmenting its low-income tuition program. Specifically, the U. T. Rio Grande Valley Tuition Advantage grant will be available starting with the Fall 2020 semester to guarantee that Texas resident undergraduates with need and family incomes of \$75,000 or less would not face out-of-pocket expenses for tuition and mandatory fees. Finally, additional funding will be committed to the student employment strategy that is proving to have a substantial positive impact on retention and progress to degree completion.

Furthermore, one of the keys to recruiting and retaining students is offering the programs that fit their needs. Growth in program offerings, including online programs, not only supports student access and success but helps extend U. T. Rio Grande Valley's reach well beyond the Rio Grande Valley. This fusion of local, national, and international perspectives both enrich the educational experience and prepare the university for emerging research status. New programs are evaluated based on ROI, projected impacts on enrollment and retention, and alignment with core competencies.

In closing, U. T. Rio Grande Valley is steadily transforming higher education along with growing access to health services by making strategic investments in the School of Medicine's clinical operations and developing a robust research presence. The investments being made will improve the standard of living for this traditionally economically disadvantaged region and provide the opportunities that will help attract and retain talent. U. T. Rio Grande Valley's ranking of 1st in Texas and 17th nationally for social mobility (U. S. News & World Report) is indicative both of early success and of enormous potential. U. T. Rio Grande Valley is one of America's Best Value Colleges 2019 (Forbes), and the investments outlined in this proposal will support and sustain this distinction.

Observations

In its fifth fiscal year of operation, U. T. Rio Grande Valley continues to seek opportunities to achieve operational efficiencies and cost reductions. These efforts are critical to functioning effectively on a total academic cost that remains among the lowest in the state. This effort has contributed to a reduction in the administrative cost ratio from 8.01% for FY 2018 to 7.44% for FY 2019, the third consecutive year with a decrease in this measure. In addition, the hiring freeze first put in place in fiscal year 2018 will continue until further notice. While certain positions critical for student success, retention, and campus safety are exempt, continuing this policy will allow salary savings to be re-directed toward areas of greatest need and will help ensure that only the most critical positions are filled. In turn, this will help reduce the level of tuition increases requested.



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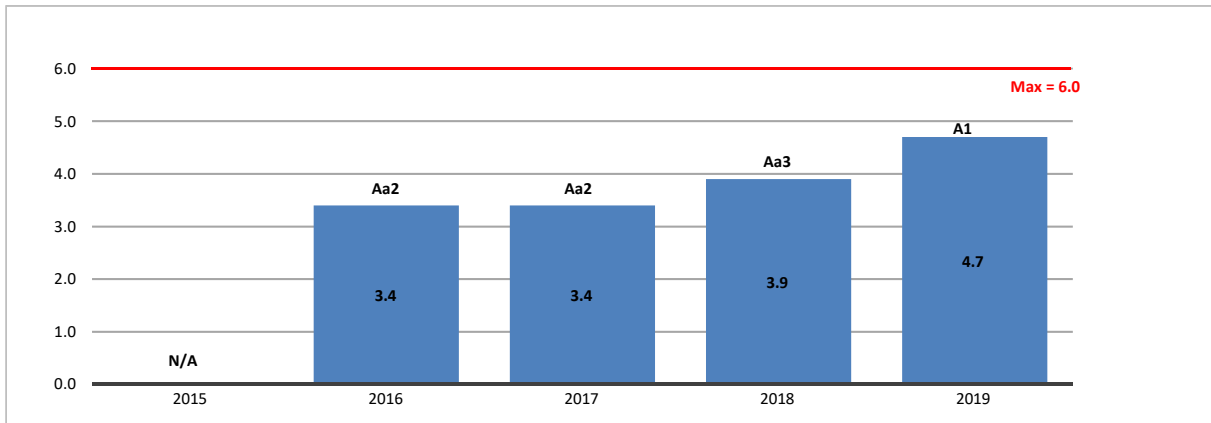
Analysis of Financial Condition

2019

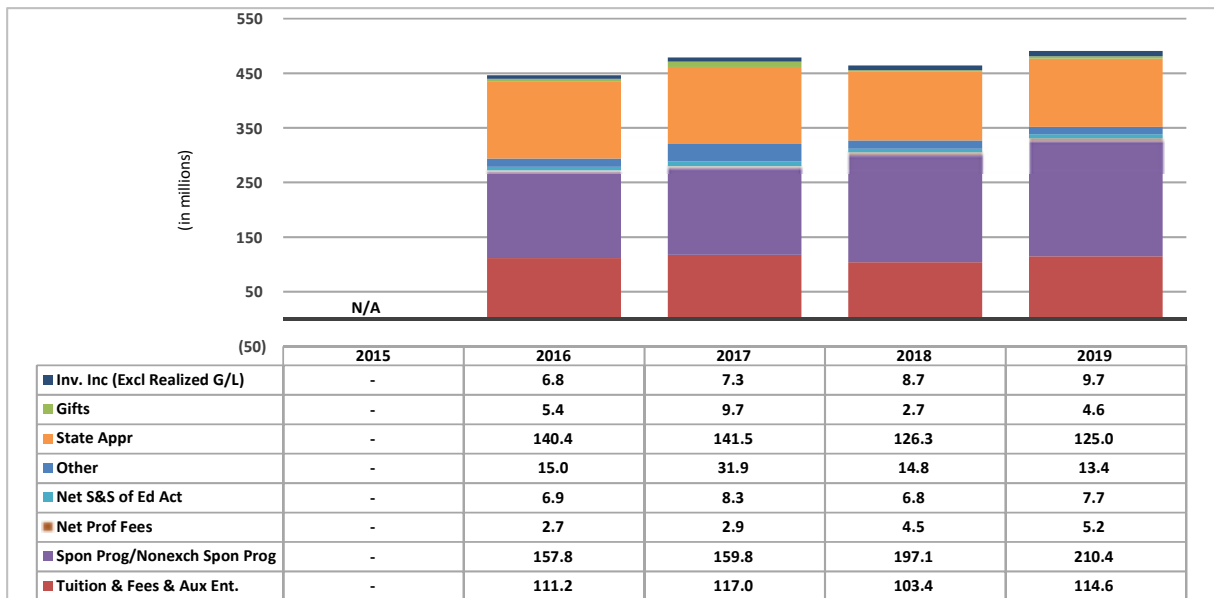
The University of Texas Rio Grande Valley (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



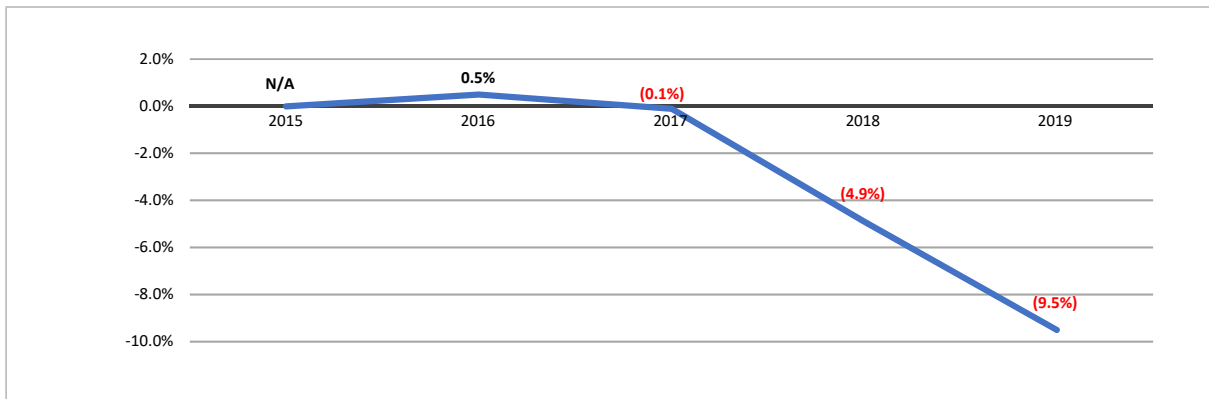
THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

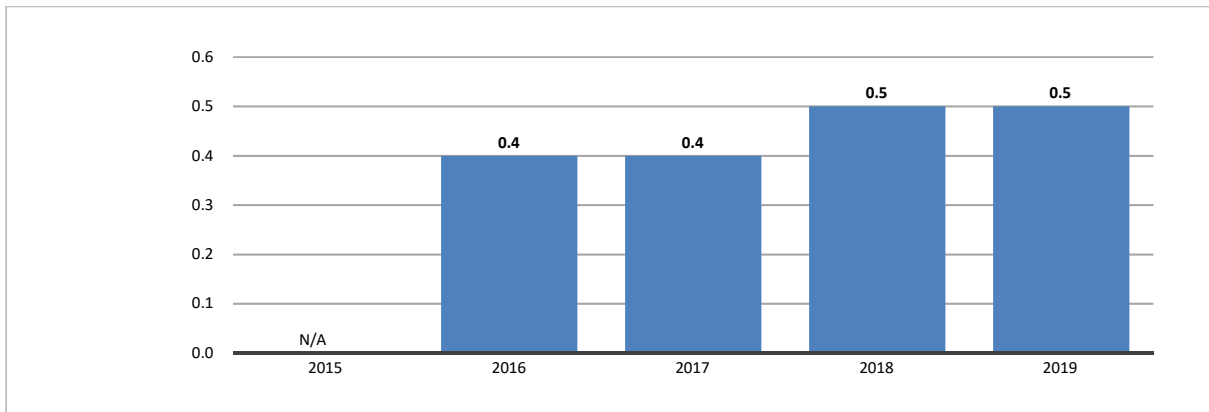
2019

The University of Texas Rio Grande Valley (continued)

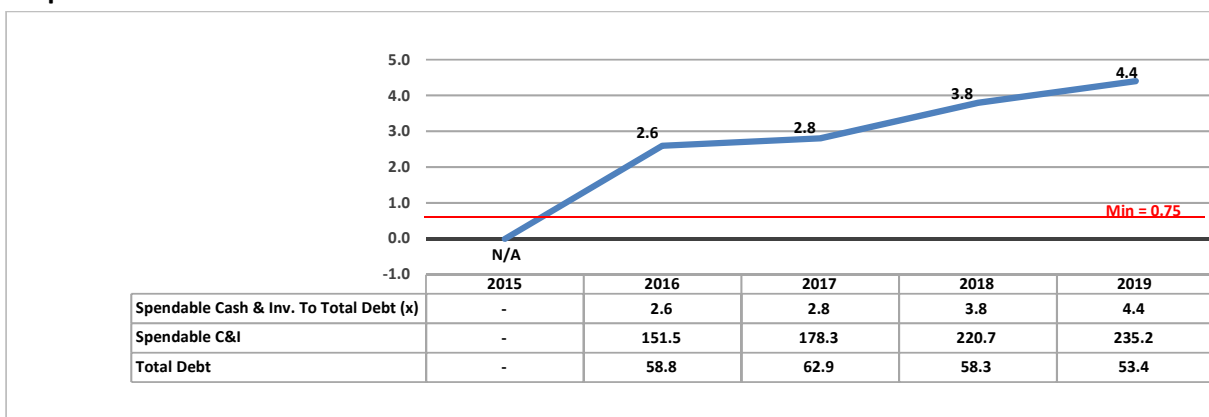
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas at San Antonio 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

Under the structure and oversight of the new Incentivized Resource Management (IRM) budget model, The University of Texas at San Antonio (U. T. San Antonio) prioritized fiscal year 2019 investment spending towards its strategic initiatives. Those initiatives serve to move U. T. San Antonio towards three destinations:

- a. U. T. San Antonio will be a model for student success.
 - b. U. T. San Antonio will be a great public research university.
 - c. U. T. San Antonio will be an exemplar for strategic growth and innovative excellence.
- The strategic initiatives include research excellence, student success and strategic faculty hiring, among others.
 - In terms of enrollment, U. T. San Antonio's headcount exceeded 32,000 for the first time in fall 2018, and U. T. San Antonio realized a 3% increase in student credit hours compared to the prior year.
 - Research expenditures grew 18% or \$10.5 million.
 - Administrative costs for fiscal year 2019 included \$2.1 million of one-time spending, supporting initiatives like the IRM budget model creation and infrastructure changes to support the National Security Collaboration Center. Without these one-time costs, U. T. San Antonio's administrative cost measure would have matched its historical low of 8.3%. U. T. San Antonio will continue to seek operational efficiencies and other ways to decrease its administrative cost measure.
 - Capital activity included the opening of a Structural Testing Facility, continued progress on the Science and Engineering Building and the planning for a new residence hall, Guadalupe Hall.

Observations

Due to a later start date in fall 2019, U. T. San Antonio had four fewer class days within fiscal year 2019, which resulted in \$6.7 million less revenue that contributed to the annual operating deficit.

U. T. San Antonio's negative annual operating margin for FY2019 is primarily the result of strategic one-time spending on long-term investments, such as strategic enrollment, the Incentivized Resource Management budget model and real estate development.

State exemptions cost U. T. San Antonio \$20.4 million of tuition revenue for fiscal year 2019. The exemptions included \$18 million for Hazlewood, for which the state provided a partial reimbursement of \$1.8 million.



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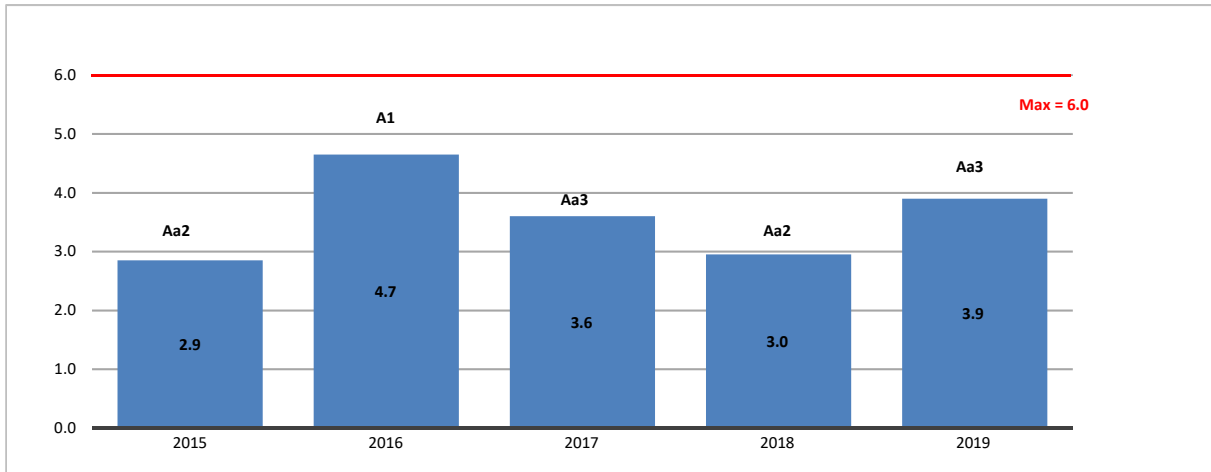
Analysis of Financial Condition

2019

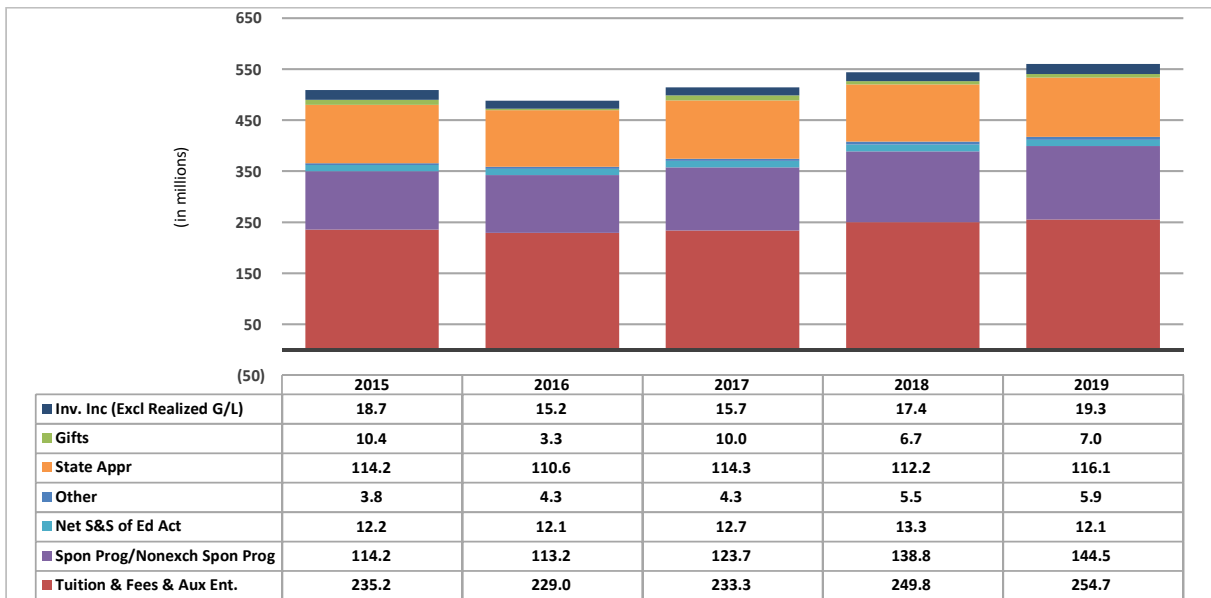
The University of Texas at San Antonio (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



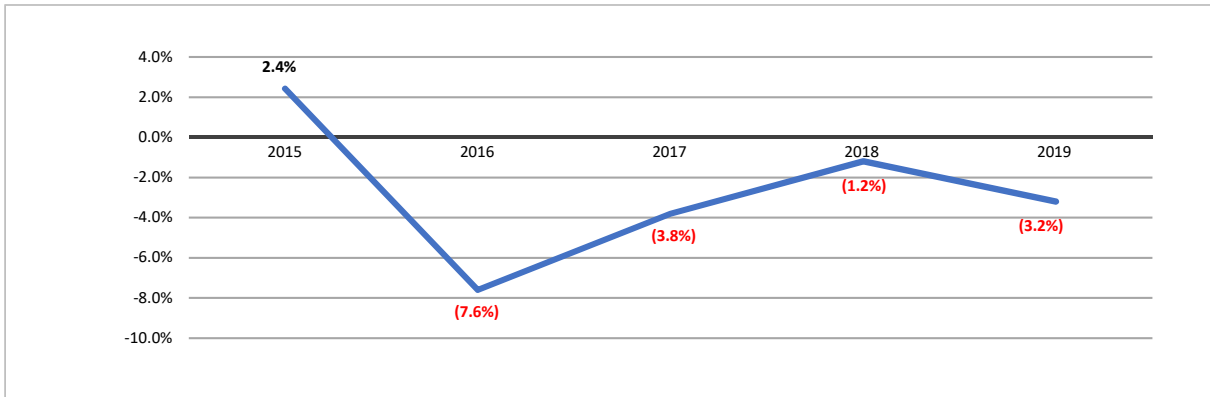
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Analysis of Financial Condition

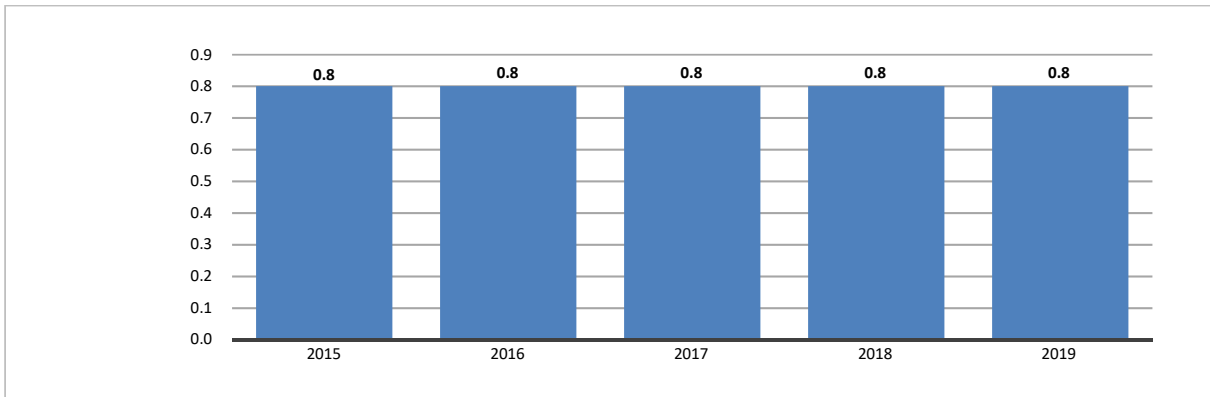
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The University of Texas at San Antonio (continued)

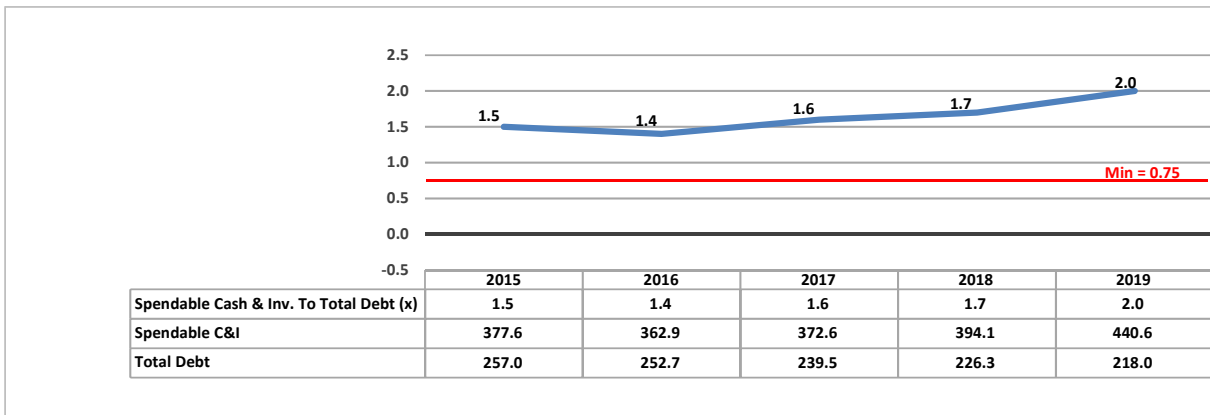
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



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Analysis of Financial Condition

2019

The University of Texas at Tyler 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas at Tyler (U. T. Tyler) has programs including arts and sciences, engineering, health sciences, business, education, psychology and pharmacy. We have one of the lowest tuitions, smallest class sizes, and highest graduation rates in the region, with more than 10,000 students. Strategic initiatives include student success, student engagement, research and scholarship, and community engagement. The goals of the initiatives are to catalyze student retention, graduation and career progression; stimulate the growth of traditions and programming that engages students in unique and compelling ways; endorse discovery that expands knowledge and transforms East Texas; and successfully deploy U. T. Tyler's intellectual capital to address regional needs.

Observations

Operating Revenues for U. T. Tyler have been trending upward mainly due to increases in Investment Income, Gifts, and Sponsored Programs, along with a slight increase in Tuition & Fees. The Operating Margin decreased from 2018 to 2019 due to lower than anticipated enrollment and increases in student scholarship and fellowship support programs as well as an increase in depreciation related to the completion of the Soules College of Business. Spendable Cash and Investments to Operating Expenses has remained steady year over year, while spendable cash and investments to total debt has increased slightly.



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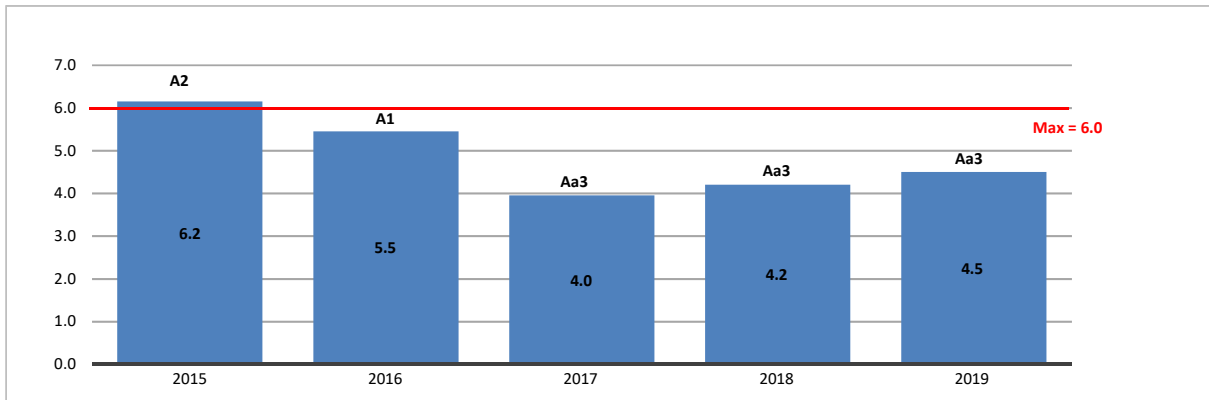
Analysis of Financial Condition

2019

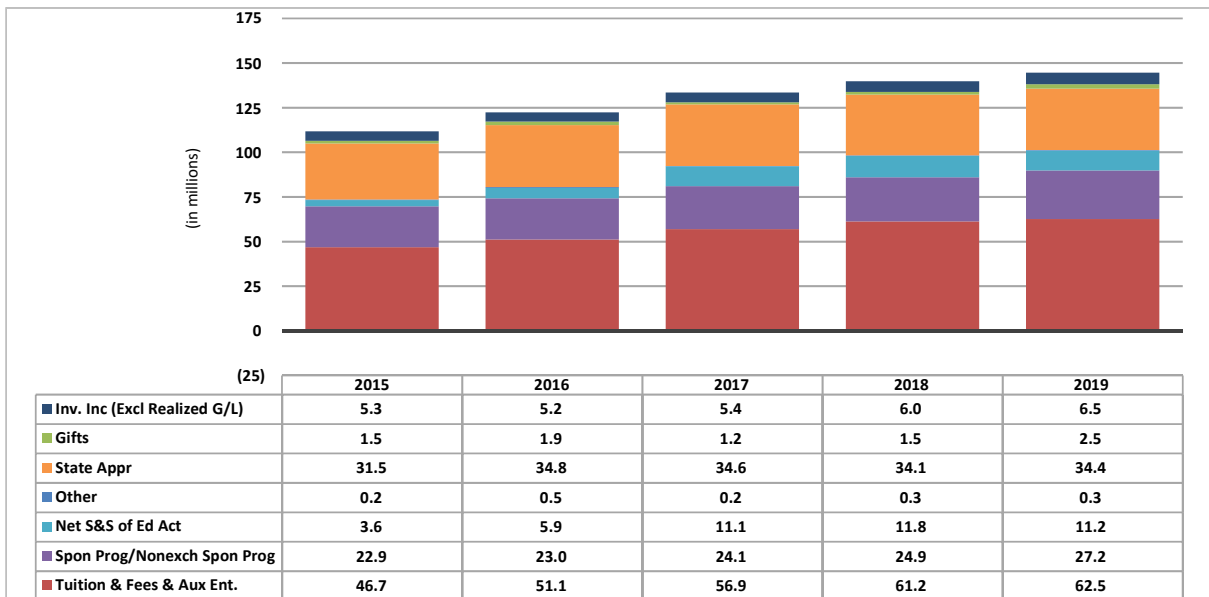
The University of Texas at Tyler (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



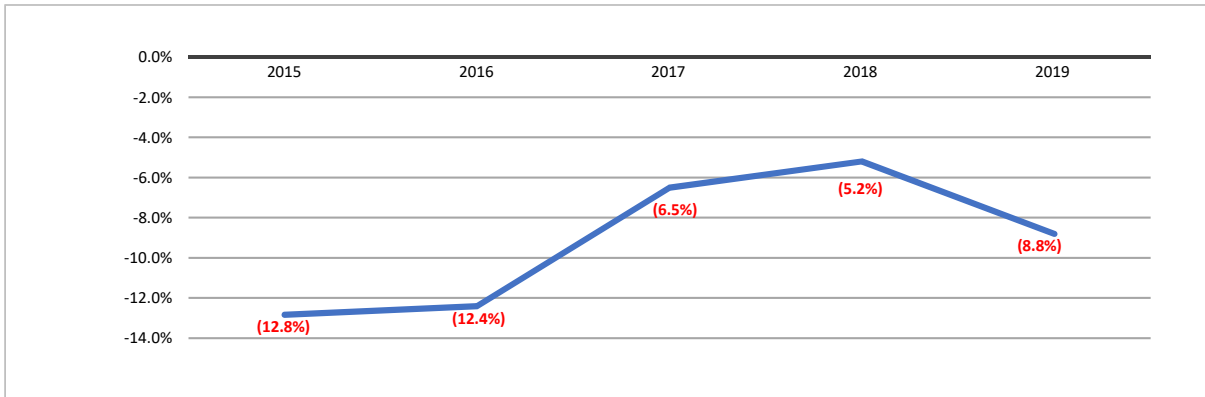
THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

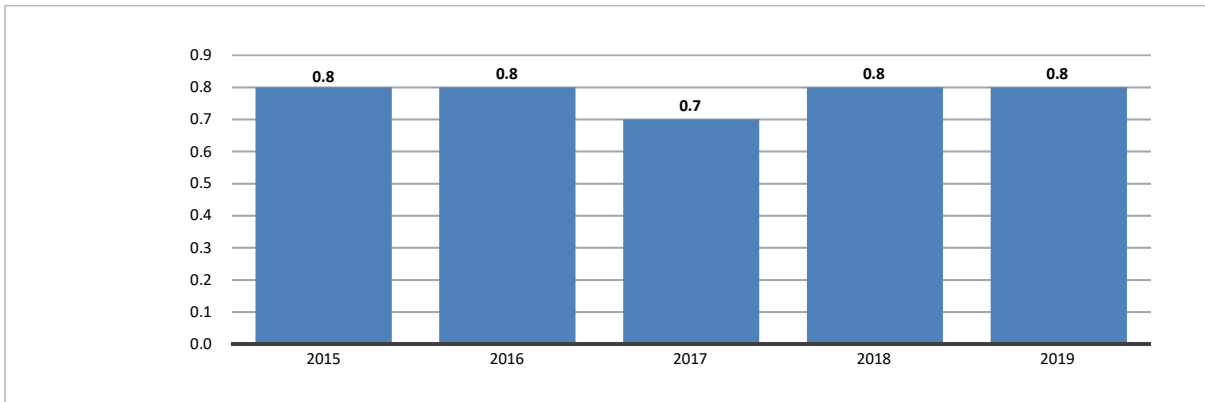
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The University of Texas at Tyler (continued)

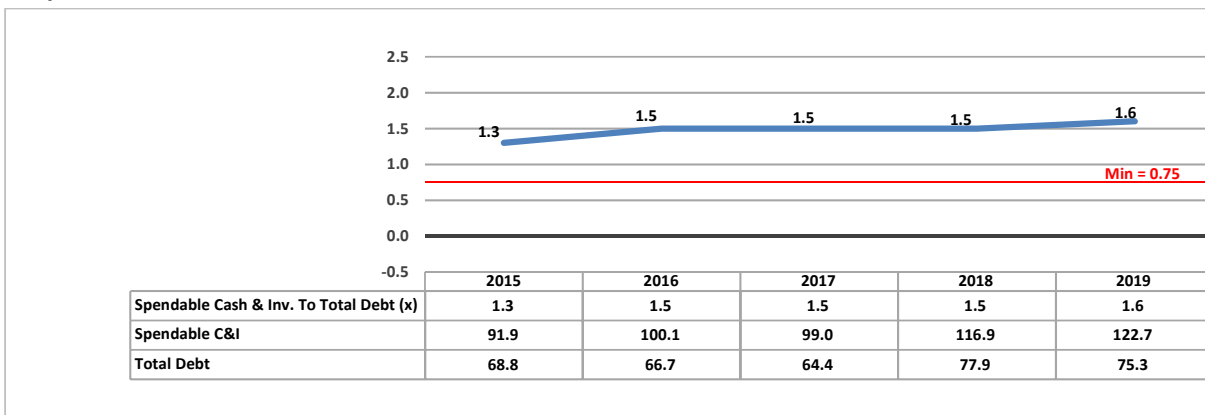
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas Southwestern Medical Center 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Southwestern Medical Center (Southwestern), one of the premier academic medical centers in the nation, integrates pioneering biomedical research with exceptional care and education. Southwestern is continuing to grow and be successful in promoting health and a healthy society that enables achievement of full human potential. This is accomplished through innovation and education of physicians, scientists, and caregivers, research that solves for unmet needs by finding better treatments, cures, and prevention with a commitment to ensuring real world application, and by providing the best patient care possible. Programmatic investments are designed to sustain a trajectory of excellence and targeted growth in all these areas.

Southwestern is dedicated to groundbreaking medical advances and quickly translating science-driven research to new clinical treatments. A notable example is the Peter O'Donnell Jr. Brain Institute, which encompasses both research and clinical programs, including the state-supported Texas Institute for Brain Injury and Repair, which promotes awareness about concussions and other traumatic brain injuries, and the Center for Alzheimer's and Neurodegenerative Diseases, which is advancing the understanding of the causes of Alzheimer's disease. To support expanded research and co-locate the medical specialties, Southwestern began construction on a new brain institute and cancer center facility in FY 2019.

In addition to its outstanding education and research programs, Southwestern is committed to leadership in patient care and continues to gain recognition through national and international clinical awards. Steady growth of patient volume continues to exceed projections. In May 2017, Southwestern obtained U. T. System Board of Regents' approval to begin constructing a 292-bed third tower for Clements University Hospital that will provide additional capacity (144 incremental beds). This expansion follows the 2017 summer openings of both a new Radiation Oncology Building and the UT Southwestern Monty and Tex Moncrief Medical Center at Fort Worth, a multi-specialty outpatient facility. A key driver of clinical growth is Southwestern Health Resources, our partnership with Texas Health Resources (THR) that includes a clinically integrated network of over 3,000 physicians, 27 hospitals, and 300 clinics across 16 counties. It leverages the complementary strengths of Southwestern and THR, enhancing joint initiatives including significant growth of Accountable Care Organization program offerings with demonstrated improvement in patient outcomes and reduction in cost at Southwestern. Southwestern has also leveraged its new relationship with THR to jointly develop a Hospital and Medical Office Building campus opening in 2019 in the rapidly expanding Frisco, Texas market.

A testimony to Southwestern's ongoing success is continued patient volume increases and recognition for exceptional patient care, including being ranked as the number one hospital in the Dallas-Fort Worth metropolitan area and number two in the State of Texas U. S. News and World Report.

Observations

Southwestern has continued to make strategic investments to sustain a trajectory of excellence and growth. While our ratios continue to be strong, these investments have increased our indebtedness. The growth is visible in our increasing operating revenues despite downward pressure on reimbursements, including decreases in federal incentive programs. The annual operating margin reduction reflects the impact of our growth and the costs of investing through higher interest, depreciation, and other increased costs associated with growth in patient care. In addition, we experienced a significant increase in operating expenses due to the loss of the 340B drug pricing program, which assisted with offsetting the high cost of drugs used for patient care in previous years.



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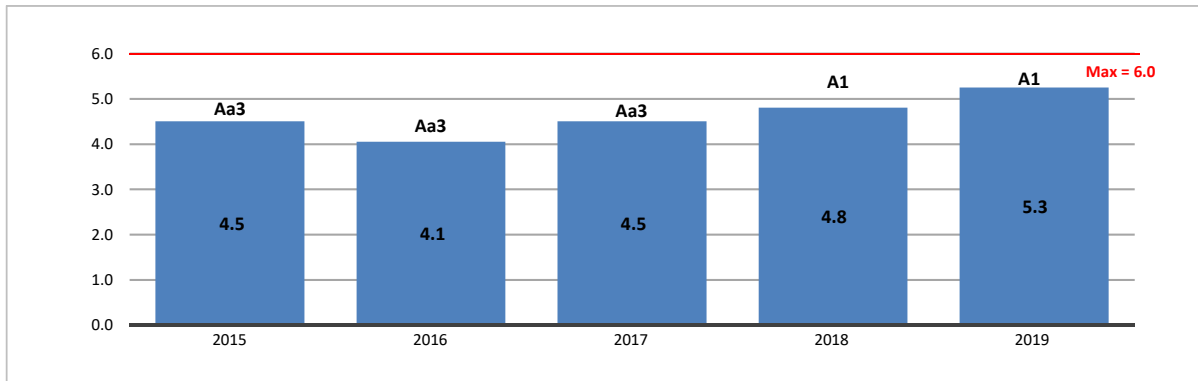
Analysis of Financial Condition

2019

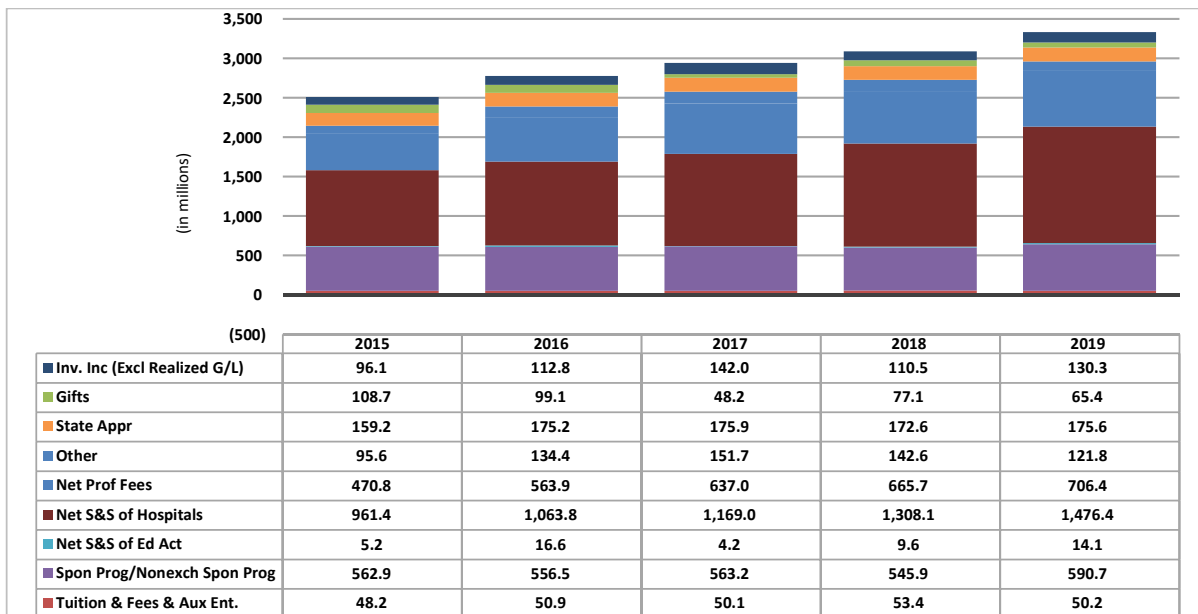
The University of Texas Southwestern Medical Center (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues

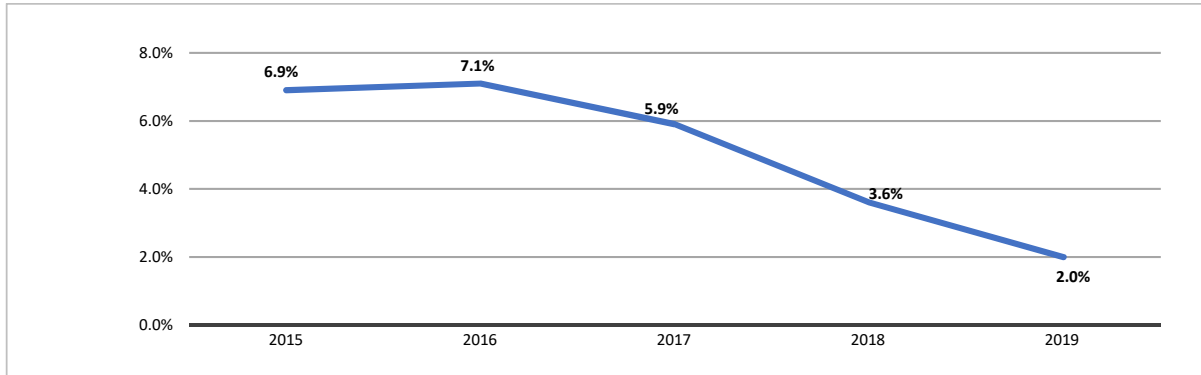


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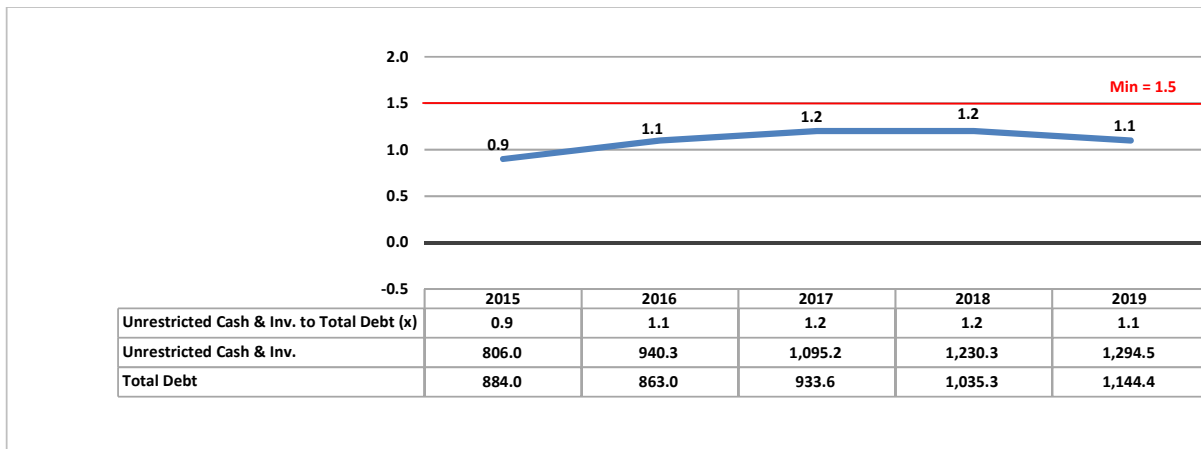
Analysis of Financial Condition 2019

The University of Texas Southwestern Medical Center (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

2019

The University of Texas Medical Branch at Galveston 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Medical Branch at Galveston (UTMB) is a major academic health sciences center of global influence, with medical, nursing, health professions and graduate biomedical schools; a world-renowned research enterprise; and a growing, comprehensive health system with hospitals on four campuses and a network of over 80 clinics. Operations provide a \$3.3 billion annual statewide economic impact, in terms of business volume, personal income and durable goods purchases. Additionally, more than 46,000 jobs in Texas are directly or indirectly attributed to UTMB.

During the fiscal year, UTMB employed more than 13,000 faculty, staff, residents, and research fellows. Academic operations enrolled 3,342 students for the fall term and faculty earned \$125 million in external sponsored research. UTMB expanded the health system with a fourth campus, the Clear Lake Hospital, along with opening 14 new clinical locations resulting in a \$111.3 million increase to related revenue. This expansion also provides UTMB more clinical sites for educating nurses, doctors, and other allied health providers in Texas.

UTMB did not sacrifice quality to achieve this growth. For the third year in a row, UTMB has been ranked among the nation's top-performing comprehensive academic medical centers, according to the Vizient Quality and Accountability Study, earning the 2019 Vizient Bernard A. Birnbaum, MD, Quality Leadership Award. In 2019, UTMB established collaborative relationships with M. D. Anderson at the League City campus to provide patients the best medical care to cancer patients and UTHSC-Houston at the Clear Lake Campus. UTMB continues to deliver on its mission to improve health for the people of Texas and around the world by offering innovative education and training, pursuing cutting-edge research and providing the highest quality patient care.

Observations

The past five years focused on strategic expansion to multiple locations off Galveston Island. During this period, UTMB went from one hospital location in Galveston to a major health system adding locations at Angleton-Danbury, League City, and Clear Lake. This diversification along with clinical expansion ensures operational continuity in the event of another major disruptive event.

Operating revenue shows positive growth year over year for the past five fiscal years. The primary area for this positive trend is revenue from the health system. This expansion period also includes significant investment in facilities and operations. UTMB's annual operating margin for the past two fiscal years went negative as UTMB grew. The primary driver impacting this measure is depreciation from Ike related renovations, Jennie Sealy Hospital, and the three new campuses that resulted in a \$76.5 million increase to depreciation expense from 2015 to 2019.

UTMB needed to take on additional debt through bonds and leases to make this expansion possible. As debt increased, UTMB was intentional about growing its cash reserves resulting in unrestricted cash and investments to total debt staying at 0.8 or 0.7 during this five-year period. UTMB is well positioned to improve its overall scorecard rating and support Texas going into the future.



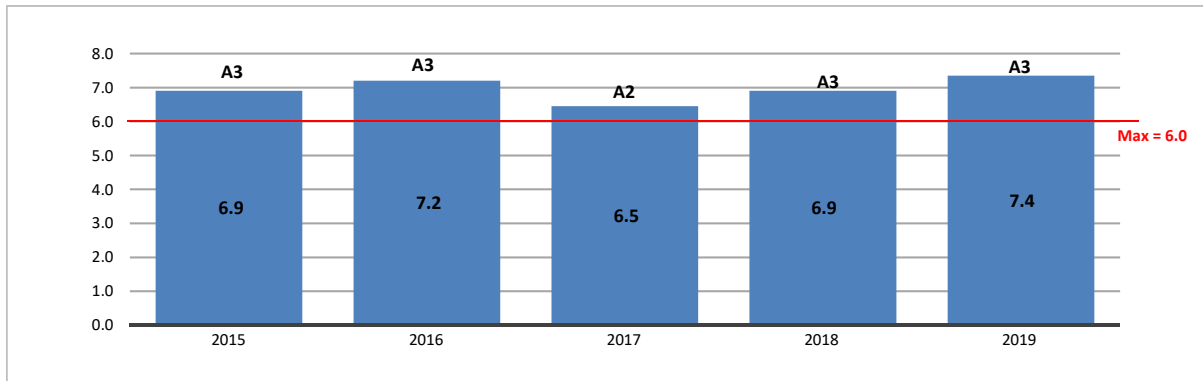
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Analysis of Financial Condition 2019

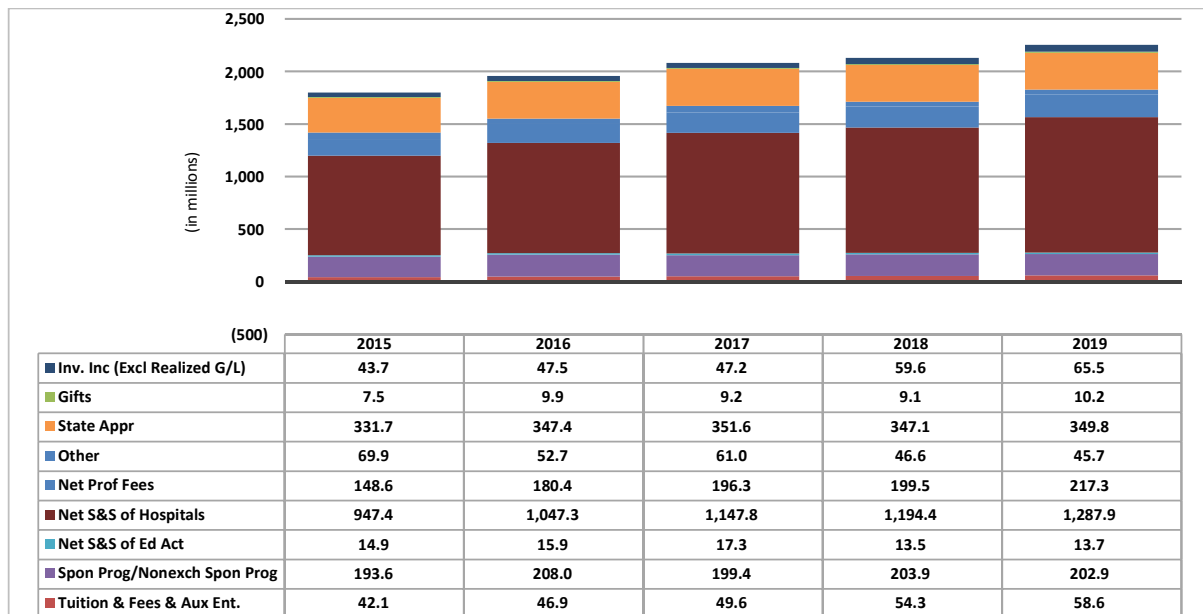
The University of Texas Medical Branch at Galveston (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



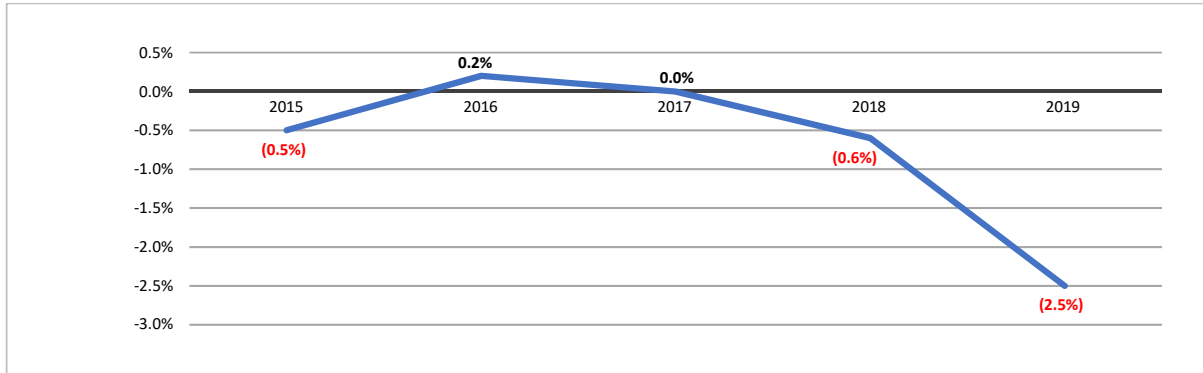
THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

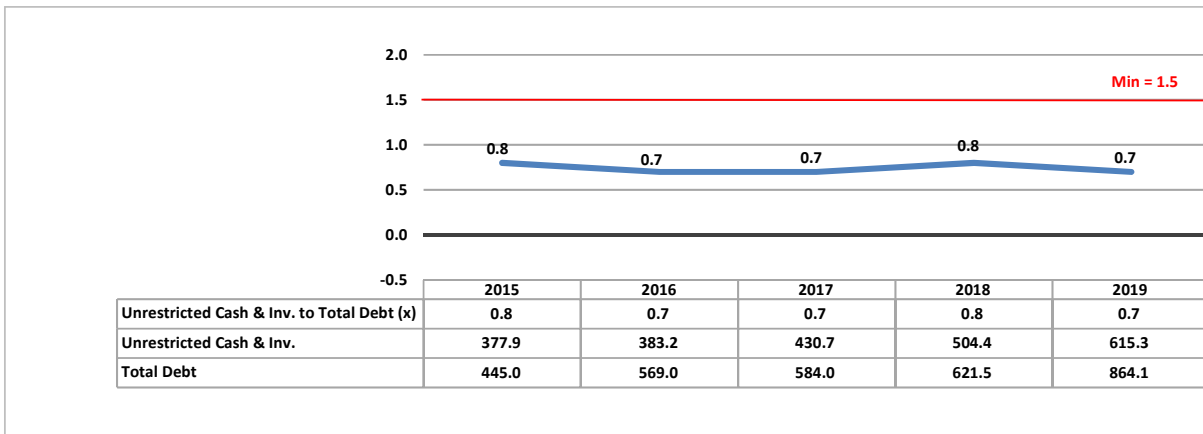
2019

The University of Texas Medical Branch at Galveston (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas Health Science Center at Houston 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Health Science Center at Houston's (UTHSC-Houston) 2,000 faculty train and educate more than 6,500 health profession students and medical residents through schools of biomedical informatics, biomedical sciences, dentistry, public health, the Jane and Robert Cizik School of Nursing, and the John P. and Kathrine G. McGovern Medical School. In addition, its faculty, residents, and students delivered high quality clinical care to nearly 2 million outpatient encounters at more than 150 clinics through a comprehensive patient care network that includes UT Physicians, UT Dentists, UT Health Services, and the Harris County Psychiatric Center. Affiliations with primary hospital partners Memorial Hermann Healthcare (MHH) System and the Harris County Hospital District (Harris Health), initiatives funded through the 1115 Waiver's Uncompensated Care and Delivery System Reform Incentive Payment program, and the Network Access Improvement Program provide a broad range of quality clinical services.

UTHSC-Houston continued its strategy of clinical expansion as a means to support the academic and research missions. The acquisition of the Mischer Neurosciences Associates (MNA), a neurosurgery/neurology clinical enterprise with over a dozen clinic sites, and approximately 200 employees, including 40 physicians/advanced care providers significantly increased the Department of Neurosurgery's presence in the Greater Houston area.

Observations

UTHSC-Houston's increase in operating revenue of \$77.8 million is primarily a result in growth of the clinical enterprise system, which represents approximately 64% of total operating revenue and accounts for 76%, or \$59.0 million, of the total increase in FY 2019. Revenue in the clinical enterprise continues the growth trend due to an increase in visits, continued support by our hospital partners, and revenue cycle optimization. In addition, UTHSC-Houston saw a sizable increase in investment earnings due to a change in our investment policy that maximized returns by shifting surplus operating cash from the ITF to the LTF.

UTHSC-Houston's annual operating margin of \$13.7 million is primarily attributed to the net operating margin of the clinical enterprise system. Specifically, revisions to the MHH FY 2019 Annual Funding Agreement resulted in increased contractual revenues this fiscal year. Cost savings strategies continue to be evaluated by management and in FY 19 shared service operations were explored, and clinic consolidations were evaluated in an effort to reduce costs.

The increase in unrestricted cash and investments to total debt is a result of a reporting change in FY 2019 to report the unrestricted net position in Endowment funds, other than state, as Funds Held by System-Unrestricted. In prior years this balance was reported as restricted. The actual fluctuation in unrestricted cash and investments from FY 2018 to FY 2019 is minimal.



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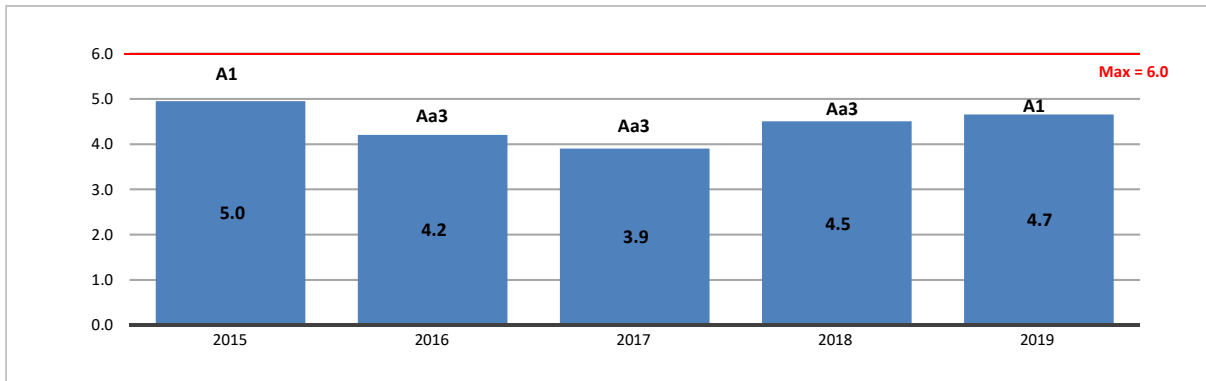
Analysis of Financial Condition

2019

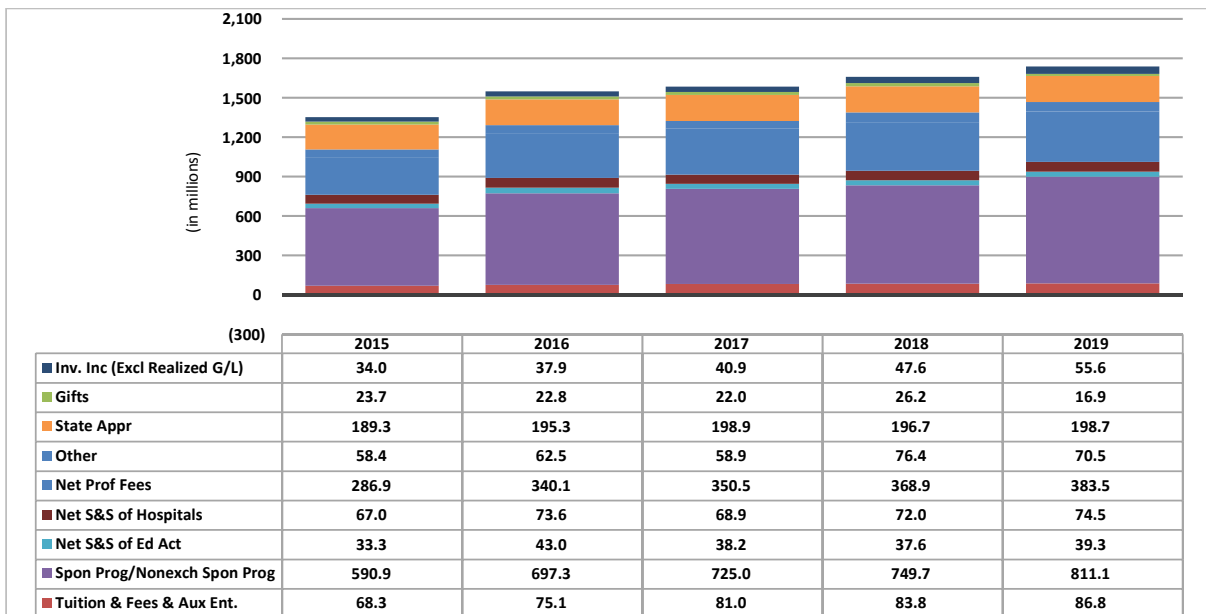
The University of Texas Health Science Center at Houston (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues

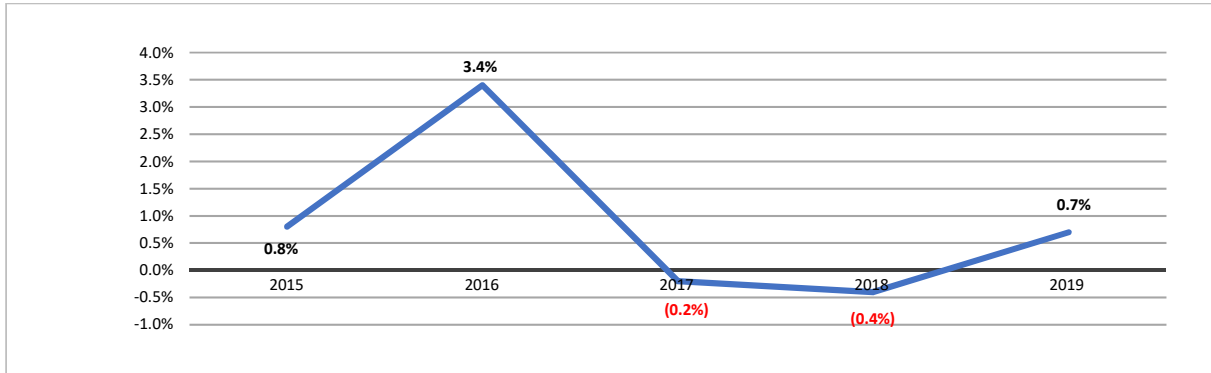


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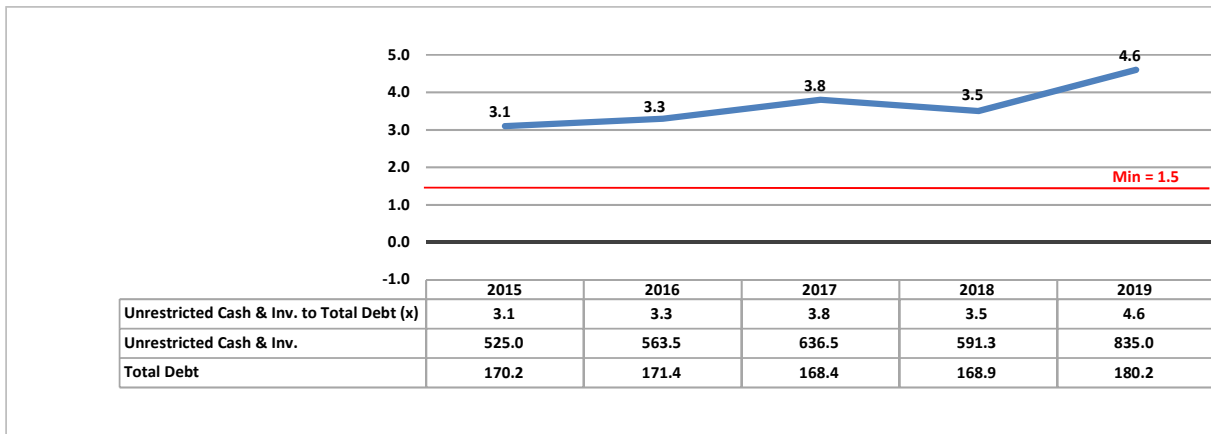
Analysis of Financial Condition 2019

The University of Texas Health Science Center at Houston (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas Health Science Center at San Antonio 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

With aspirations to reach the top echelon of academic medical centers in the United States, The University of Texas Health Science Center at San Antonio (UTHSC-San Antonio) continued to make significant investments in the expansion of its clinical enterprise, research strengths and infrastructures, and educational innovation in fiscal year 2019. Growth in the clinical enterprise allowed UTHSC-San Antonio to execute clinical transformation and to make significant investments in research while steadily growing net assets. UTHSC-San Antonio expanded the clinical enterprise by opening new multi-specialty sites, implementing an Accountable Care Organization, expanding the primary care center, and enhancing cancer, heart disease, transplant, trauma, neurodegenerative diseases and diabetes programs. UTHSC-San Antonio continued its focus on research recruitments in the areas of population and translational neurosciences, medicine, epidemiology, biochemistry, physiology and cardiology, and made infrastructure investments renovating laboratory space and animal facilities and constructing a biobank core to support clinical trial growth. Modernization of academic space in the medical, dental and nursing buildings was completed in 2019, and the successful reaccreditation from the Southern Association of Colleges and Schools Commission on Colleges is an important reflection of the quality of our programs and the resources that support the educational mission. The investments made in 2018 and 2019 will help stimulate financial strength, preserve financial health, and create opportunities to greatly expand and enhance the research and clinical education missions in the coming years.

Observations

UTHSC-San Antonio's annual operating margin ratio remains relatively flat from (2.0%) for 2018 to (1.9%) for 2019 due to the sustained growth in our revenues and expenses. The \$71.6 million increase in total operating revenues was primarily attributable to the following: a \$23.8 million increase in net professional fees due to increased productivity at all UT Health Physicians clinic sites; a \$30.7 million increase in sponsored programs revenue mostly related to enhanced clinical contracts with University Health System and grants in the School of Nursing targeting the opioid epidemic; an \$11.3 million increase in sales and services of educational activities related to the San Antonio State Hospital; and a \$4.1 million increase in gift contributions in support of a newly established biobank and educational activities in the School of Dentistry. Offsetting these increases was a decrease in other operating revenues of \$5.1 million primarily due to a decrease in Delivery System Reform Incentive Payments (DSRIP) revenues.

The \$72.5 million increase in total operating expenses was primarily attributable to the following: a \$37.1 million increase in salaries and wages and payroll related costs from nearly 360 new faculty and staff supporting clinical expansion and research fortification efforts, combined with a 2.0% merit increase for all non-faculty employees; a net increase of \$21.2 million in dispensed drug supplies from the substantial patient volume growth at the Mays Cancer Center and increased public outreach at the South Texas Comprehensive Hemophilia Center; and an increase of \$8.2 million in sub-contracted research services primarily associated with the Biggs Alzheimer's Institute.

Unrestricted cash & investments to total debt, which examines our ability to repay bondholders from unrestricted cash and investments, remains flat at 3.2 times from 2018 to 2019 and exceeded the minimum threshold of 1.5 times as provided by the Office of Finance.



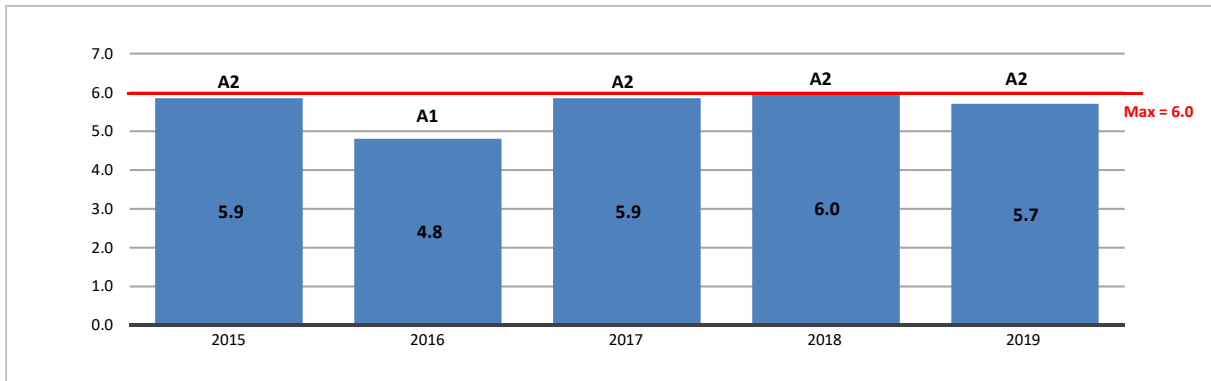
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Analysis of Financial Condition 2019

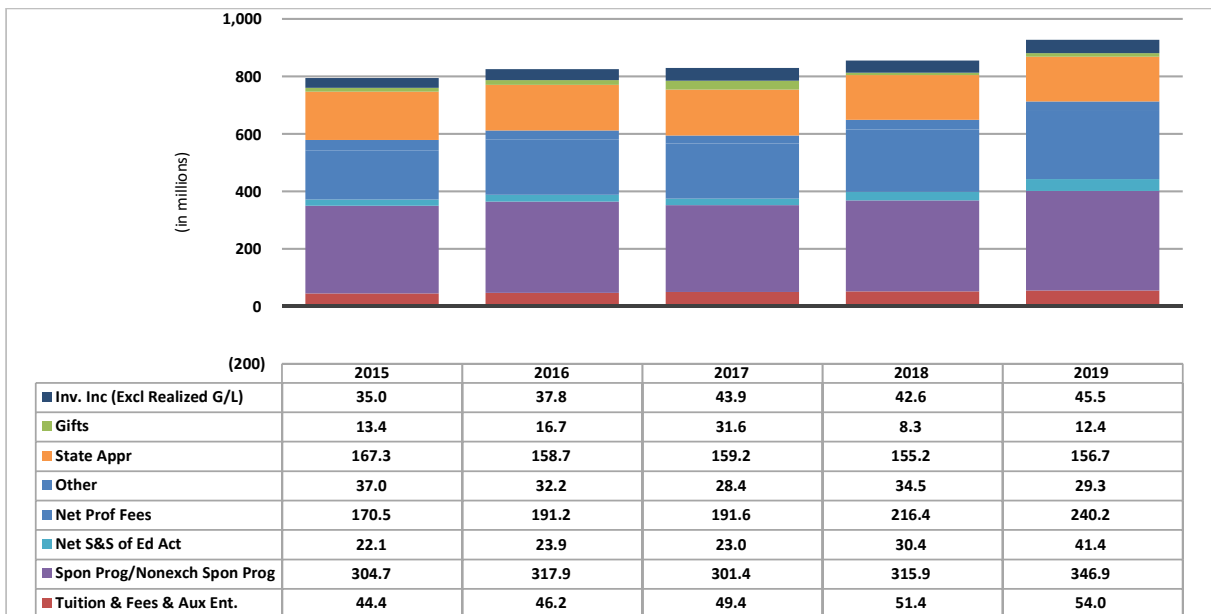
The University of Texas Health Science Center at San Antonio (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



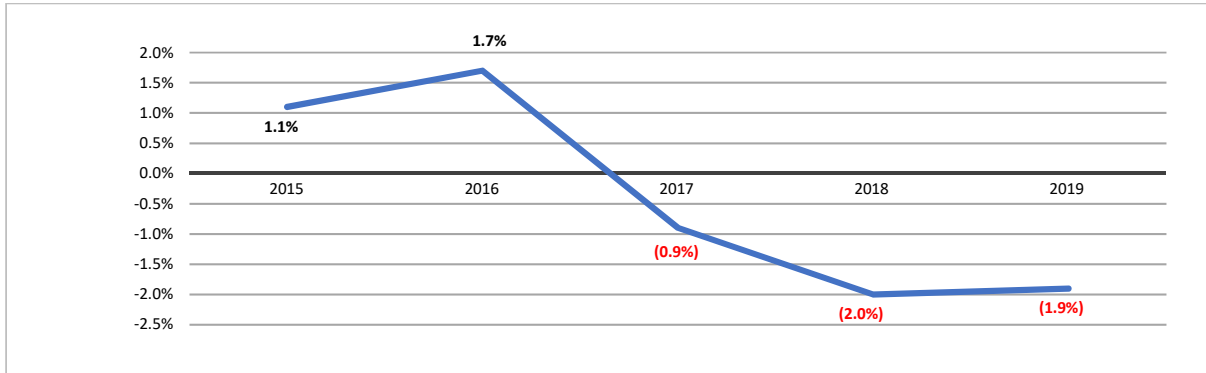
THE UNIVERSITY of TEXAS SYSTEM
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Analysis of Financial Condition

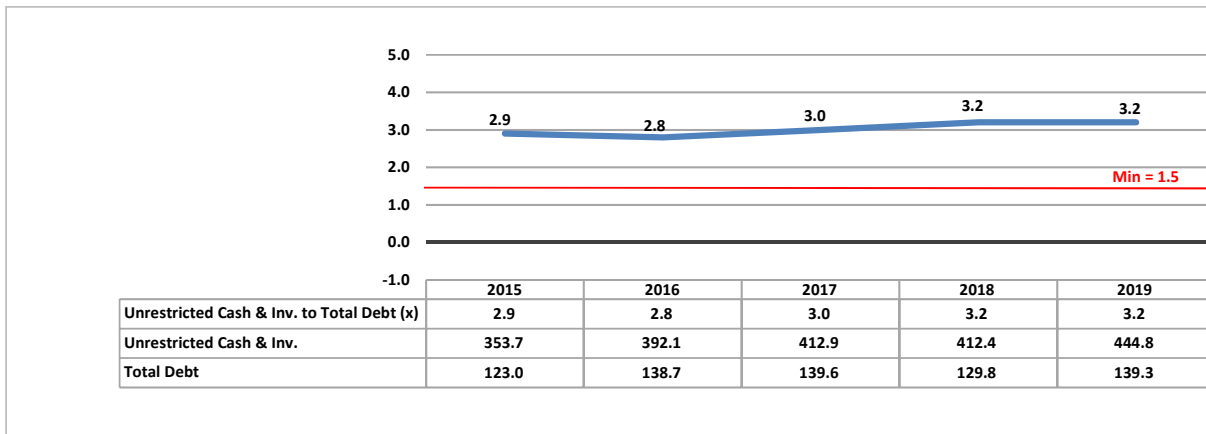
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The University of Texas Health Science Center at San Antonio (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas M. D. Anderson Cancer Center 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas M. D. Anderson Cancer Center (M. D. Anderson) enjoyed another amazing year of progress highlighted by our continued number one ranking by U. S. News and World Report as well as change that welcomed both new leaders into our organization and new locations in League City and The Woodlands. We also celebrated Dr. James Allison as a Nobel Laureate through his innovative research in immunotherapy. M. D. Anderson achieved the strongest financial performance in our history that will enable our organization to continue to meet our mission of Making Cancer History and providing the highest quality care for our patients. A CMS survey identified opportunities for us to deliver safer patient care across the organization and we responded and remediated all deficiencies. M. D. Anderson is also undertaking the development and implementation of an Enterprise Risk Management program that will enable us to identify, prioritize and manage risks now and into the future. All of these accomplishments were the result of all 22,000 employees working in extraordinary ways as never before. M. D. Anderson's future will be guided by our new strategic plan, a facilities master framework that will enable us to maximize the use of our space, coupled with a long-term capital plan and a robust capital campaign. These four elements will be our compass as we continue our mission to serve our patients.

Observations

Fiscal Year 2019 saw record-breaking operating revenues which were fueled by growth in clinical and professional services at our Texas Medical Center campus and Houston Area Locations. With strong cash collections throughout the year we achieved industry best-practice with Days in Accounts Receivable. Research revenue generated by our sponsored programs also continued to grow as we expanded our research portfolio. Within our Strategic Industry Venture program, M. D. Anderson continues to partner with pharmaceutical companies across the globe that will enable us to continue developing innovative therapies for our patients. Each of these activities has driven our strong cash and investment position which provides adequate reserves for debt service payments and will help support the long-term capital plan. As an organization we continue innovative initiatives to achieve cost savings and improve efficiencies in our clinical, research and administrative areas.



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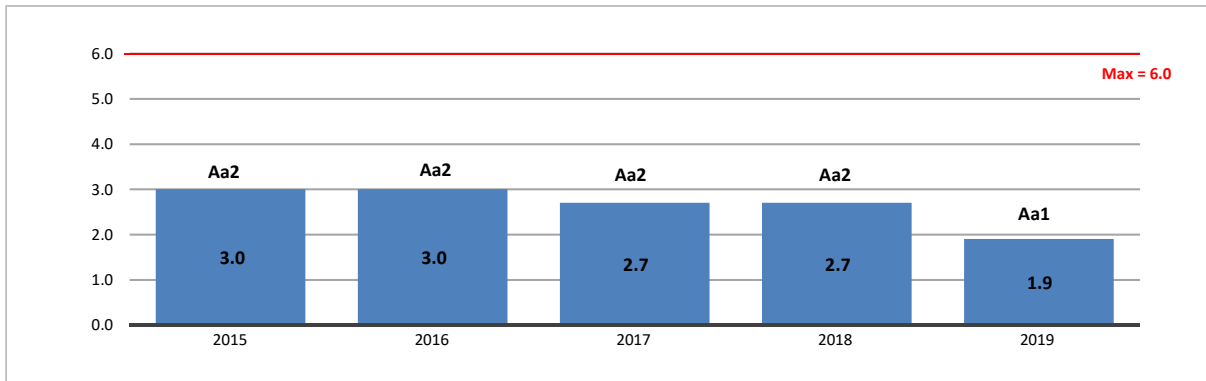
Analysis of Financial Condition

2019

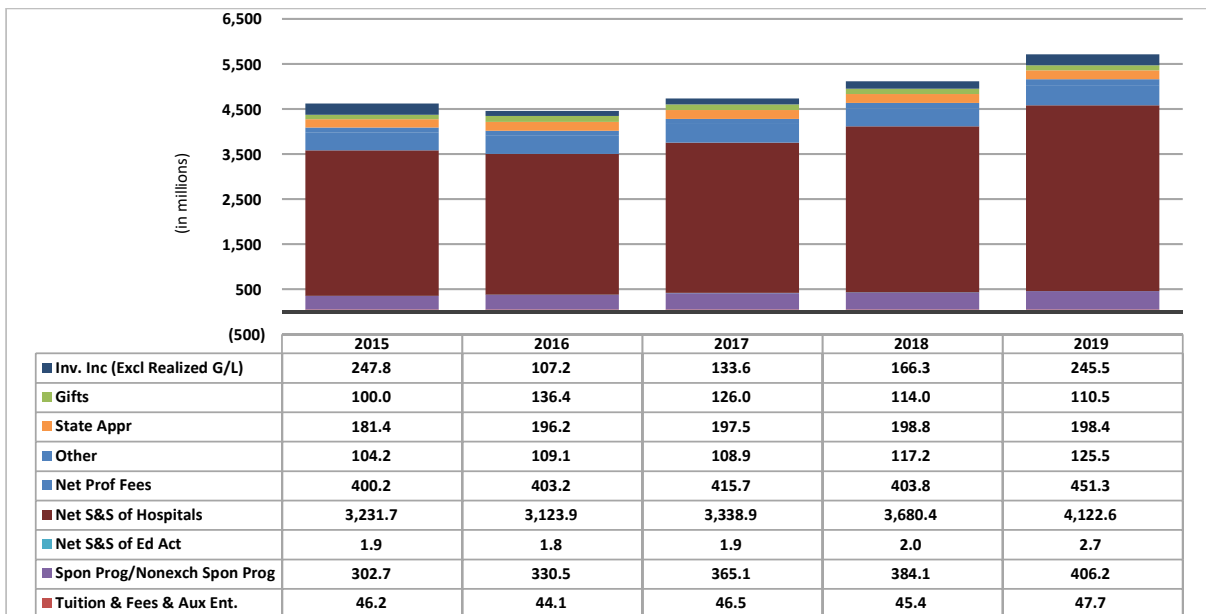
The University of Texas M. D. Anderson Cancer Center (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



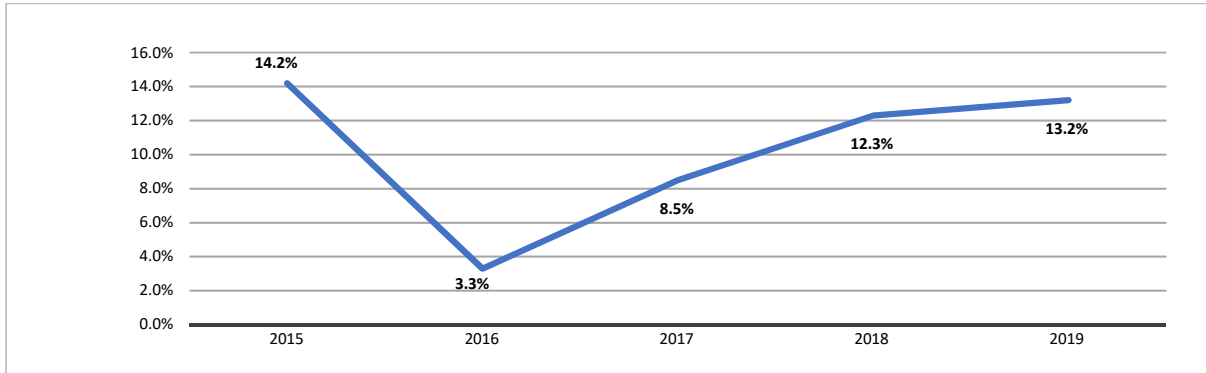
THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

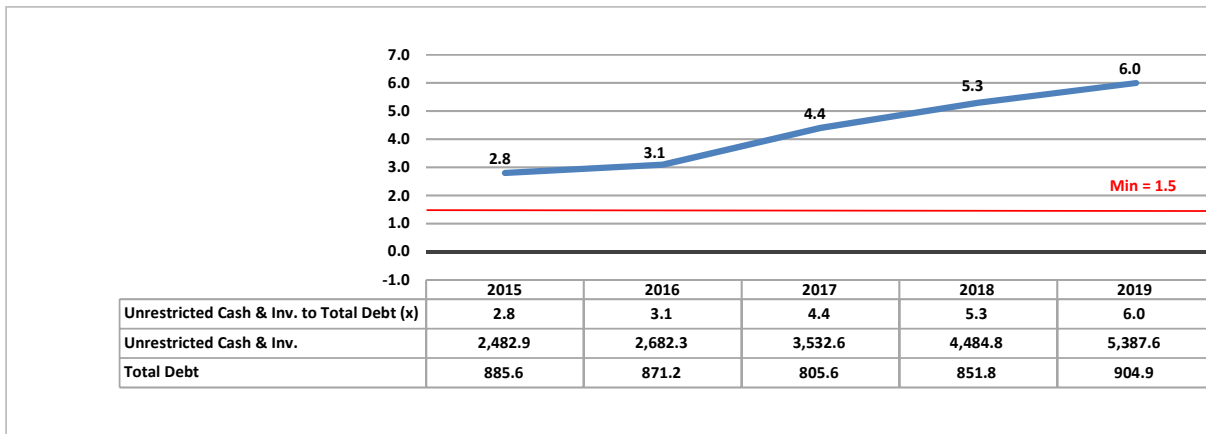
2019

The University of Texas M. D. Anderson Cancer Center (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas Health Science Center at Tyler 2019 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas Health Science Center at Tyler (UTHSC-Tyler) had many accomplishments in 2019 as it continues to fulfill its mission of serving East Texas and beyond through excellent patient care and community health, comprehensive education, and innovative research. The year 2019 marked the first year of a comprehensive six-year strategic plan through 2024, with the following priorities:

- Priority 1: Improve the health outcomes of East Texas.
- Priority 2: Educate the next generation of health professionals.
- Priority 3: Develop a large, university-based, clinically integrated faculty practice.
- Priority 4: Creatively seek partnership and collaboration opportunities.
- Priority 5: Identify and secure resources to ensure and enhance institutional success.
- Priority 6: Strengthen core infrastructure, high-quality resources, and foundational capabilities necessary to advance the mission of UTHSC-Tyler.

Acting on these priorities, notable accomplishments in 2019 include:

- The grand opening of the new School of Community and Rural Health
- The largest graduating class in the UTHSC-Tyler's history
- Enrollment growth of 59% for the Fall 2019 academic term over the prior Fall
- Two drugs headed into phase II clinical trials after successful phase I trials
- Announcement of a major collaboration with BlueCross BlueShield of Texas to conduct healthcare research and medical education projects
- Advancement of education, research, and healthcare with the growth and maturation of the UT Health East Texas partnership, a 10-hospital system spanning 11 counties
- Clinical faculty growth of 12.2% over the prior year
- Received accreditation for two new residency programs in internal medicine and surgery, with a combined 75 new positions at full complement and the first residents starting in July 2020
- Improvement in operating margin of \$22.3 million over the prior year



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition

2019

The University of Texas Health Science Center at Tyler (continued)

Observations

Trends in financial indicators, both in 2019 and beyond, include:

- A critical improvement in the operating margin in 2019 by \$22.3 million over the prior year, from (\$33.3) million to (\$11.0) million.
- A positive margin excluding depreciation of \$3.9 million in 2019, in comparison to (\$19.3) million in 2018.
- Agreement in terms, with finalization of documents pending, for a \$50 million foundation gift, along with a \$20 million matching gift, to further UTHSC-Tyler's academic priorities, as well as a potential \$30 million gift from another foundation that is in the earlier stages of development.
- A 14% increase in state general revenue for the 2020-2021 biennium, or \$11 million more than the previous biennium. Additionally, the \$11 million increase in state general revenue includes \$5.4 million to improve and expand mental workforce training for providers working with children who have experienced abuse and trauma, an acknowledgement of UTHSC-Tyler's past accomplishments in meeting this critical need in Texas and an additional resource toward fulfillment of UTHSC-Tyler's mission in this important area.
- Acquisition of an oncology practice late in 2019 that is estimated to generate approximately \$58 million in annual net revenue and approximately \$800 thousand per month to the bottom line from April 2020 going forward.
- Improvement in cash balance anticipated once the physician MSA with UT Health East Texas is finalized and reimbursement for incurred expenses associated with physicians already on board can commence.
- Robust UT Health East Texas volumes through September 2019 that continue to exceed the prior year in almost all major categories, including admissions, surgeries, emergency room visits, outpatient visits, and adjusted patient days.



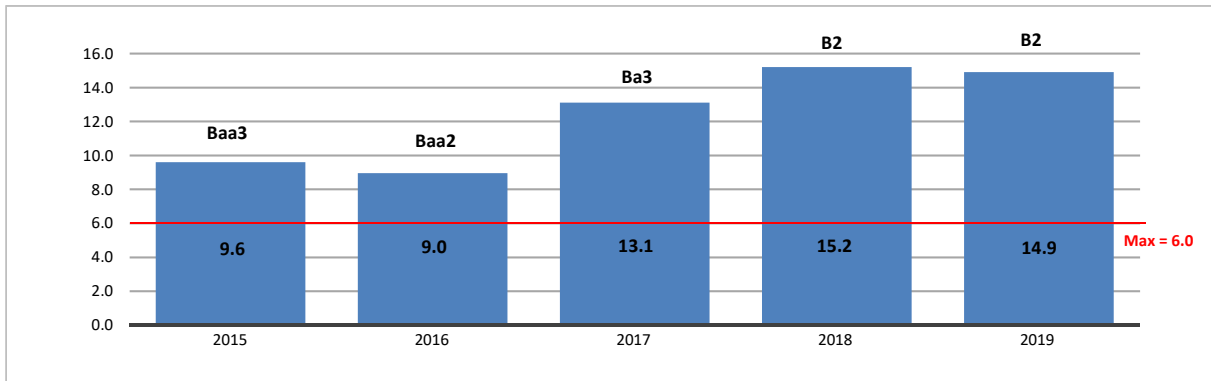
THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Analysis of Financial Condition 2019

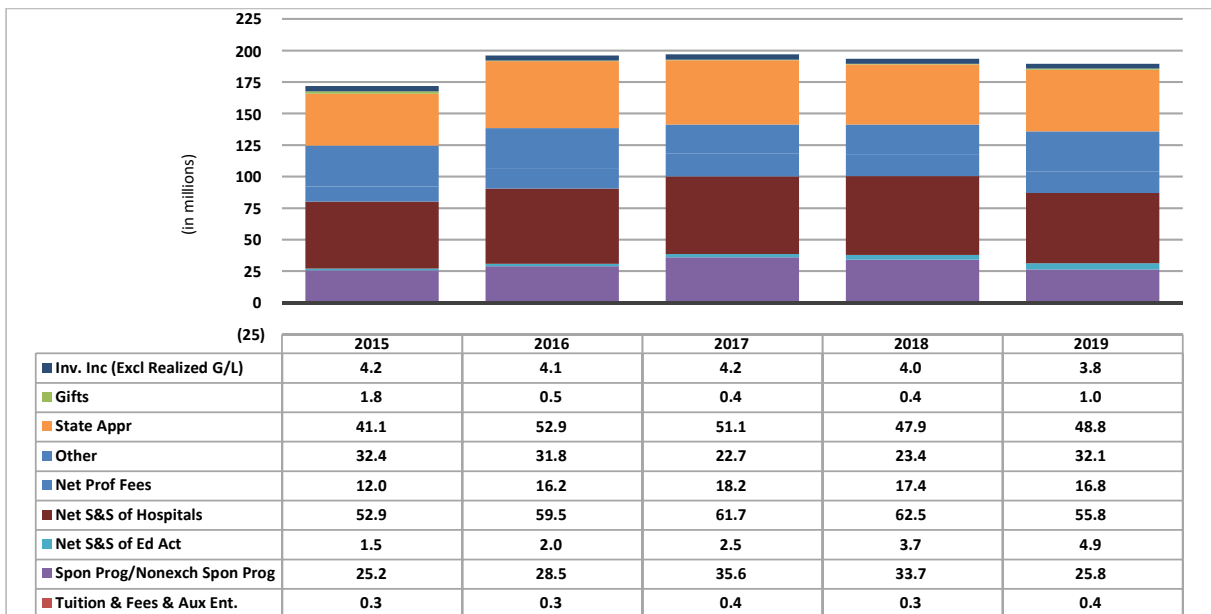
The University of Texas Health Science Center at Tyler (continued)

ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues



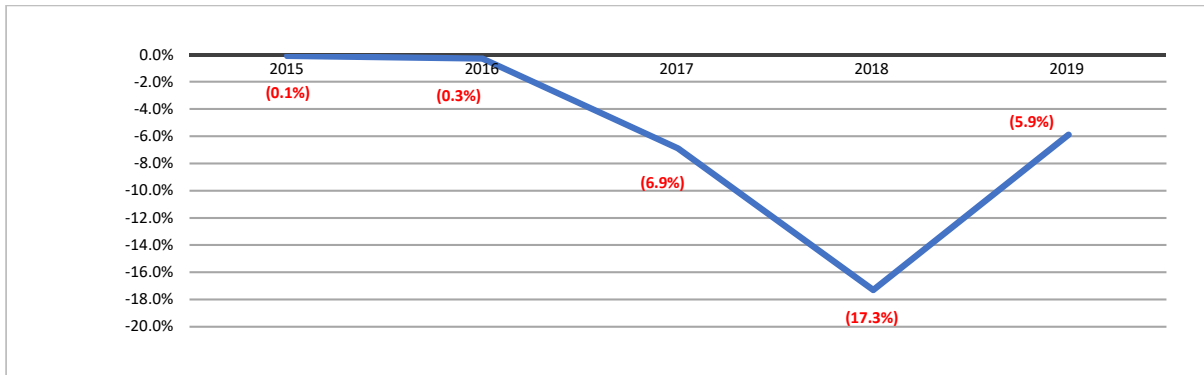
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Analysis of Financial Condition

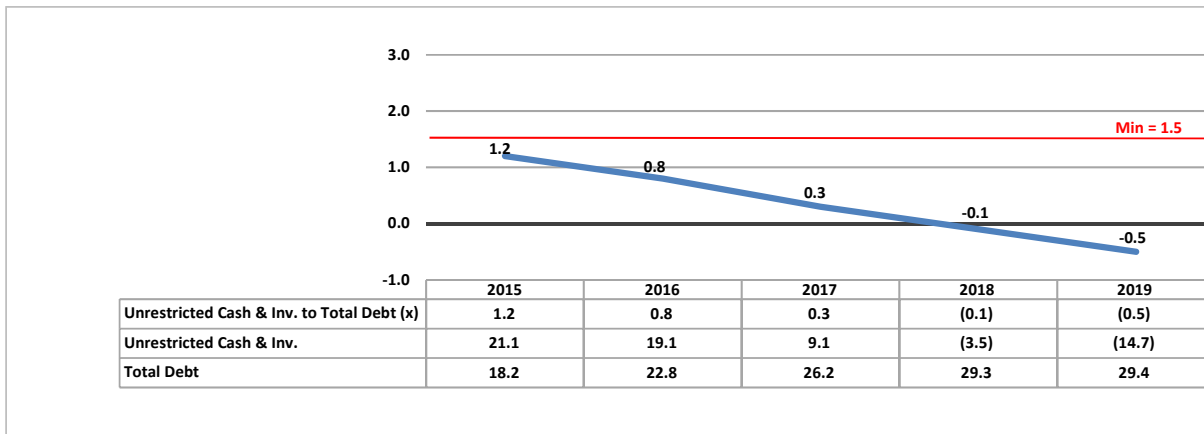
2019

The University of Texas Health Science Center at Tyler (continued)

3. Annual Operating Margin



4. Unrestricted Cash & Investments to Total Debt



THE UNIVERSITY of TEXAS SYSTEM
FOURTEEN INSTITUTIONS. UNLIMITED POSSIBILITIES.

Appendices

Appendix A - Definitions of Evaluation Factors

- Overall Scorecard Rating** – The Overall Scorecard Rating has four broad factors for academic institutions and three broad factors for healthcare institutions.

➤ Factors for Academic Institutions

- Market Profile
- Operating Performance
- Wealth and Liquidity, and
- Leverage

➤ Factors for Healthcare Institutions

- Market Position
- Operating Performance & Liquidity, and
- Leverage

There are sub-factor calculations under these broad factors and each sub-factor is assigned a weight and a value. After calculating each sub-factor, the results are mapped to a rating category. The sub-factor ratings are then converted to alpha numeric values, which are multiplied by the assigned weights and summed to produce an aggregate weighted score. That aggregate score is then mapped to the appropriate rating. See Appendix B for each institution’s calculation. The maximum scorecard rating is 6.0.

- Annual Operating Margin Ratio** – This ratio indicates whether an institution is operating within its available resources. The interest expense used in this calculation excludes interest expense on tuition revenue bonds (TRBs) and the general revenue supporting interest and principal payments is also excluded.

$$\frac{\text{Op Rev+GR+Op Gifts+NonexchSP+Inv Inc+RAHC\&AUF Trans+NSERB Appr+ILP Trans+Hazelwood\&NRUF Trans}-\text{Op Exp \& Int Exp}}{\text{Op Rev+GR+Op Gifts+NonexchSP+Inv Inc+RAHC\&AUF Trans+NSERB Approp+ILP Trans+Hazelwood\&NRUF Trans}}$$

- Spendable Cash & Investments to Operating Expenses Ratio for Academic Institutions** – This ratio indicates the extent to which an academic institution can rely on wealth that can be accessed over time or for a specific purpose to operate without earning additional revenue. The interest expense used in this calculation excludes interest expense on (TRBs).

$$\frac{\text{Total Cash and Investments less Nonexpendable Net Position}}{\text{Total Operating Exp. (excluding Scholarships Exp.) + Interest Expense}}$$

- Spendable Cash & Investments to Total Debt Ratio for Academic Institutions** – This ratio examines the ability of an academic institution to repay bondholders from wealth that can be accessed over time or for a specific purpose. The total debt used in this calculation excludes TRBs. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 0.75 times.

$$\frac{\text{Total Cash and Investments less Nonexpendable Net Position}}{\text{Debt not on Institution’s Books (excluding TRBs) + Capital Lease Liabilities}}$$

- Unrestricted Cash & Investments to Total Debt Ratio for Healthcare Institutions** – This ratio examines the ability of a healthcare institution to repay bondholders from unrestricted cash and investments. The total debt used in this calculation excludes TRBs. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 1.5 times.

$$\frac{\text{Total Unrestricted Cash and Investments}}{\text{Debt not on Institution’s Books (excluding TRBs) + Capital Lease Liabilities}}$$

**Appendix B - Calculation of Overall Scorecard Rating
Academic Institutions
As of August 31, 2019**

U. T. Arlington	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	699.62	Aa	0.45
Annual Change in Operating Revenues (%)	5%	8.93%	Aaa	0.05
<i>Total Weighted Market Profile</i>				<u>0.50</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	16.06%	Aa	0.60
Max. Single Revenue Contribution (%)	10%	54.01%	A	0.60
<i>Total Weighted Operating Performance</i>				<u>1.20</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	782.96	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	1.05	Aaa	0.10
Cash on Hand (days)	5%	396.26	Aaa	0.05
<i>Total Weighted Wealth & Liquidity</i>				<u>0.60</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	2.55	Aa	0.30
Total Debt to Cash Flow (x)	10%	2.38	Aaa	0.10
<i>Total Weighted Leverage</i>				<u>0.40</u>
U. T. Arlington - Overall Rating & Numeric Score			Aa2	2.7
<hr/>				
U. T. Austin	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	3,009.29	Aaa	0.15
Annual Change in Operating Revenues (%)	5%	5.81%	A	0.30
<i>Total Weighted Market Profile</i>				<u>0.45</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	17.36%	Aa	0.60
Max. Single Revenue Contribution (%)	10%	28.75%	Aaa	0.10
<i>Total Weighted Operating Performance</i>				<u>0.70</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	6,497.76	Aaa	0.15
Spendable Cash & Inv. to Operating Exp. (x)	10%	1.49	Aaa	0.10
Cash on Hand (days)	5%	233.26	Aa	0.15
<i>Total Weighted Wealth & Liquidity</i>				<u>0.40</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	2.62	Aa	0.30
Total Debt to Cash Flow (x)	10%	3.17	Aaa	0.10
<i>Total Weighted Leverage</i>				<u>0.40</u>
U. T. Austin - Overall Rating & Numeric Score			Aa1	2.0

**Appendix B - Calculation of Overall Scorecard Rating
Academic Institutions
As of August 31, 2019**

U. T. Dallas	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	629.85	Aa	0.45
Annual Change in Operating Revenues (%)	5%	5.15%	A	0.30
<i>Total Weighted Market Profile</i>				0.75
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	12.74%	Aa	0.60
Max. Single Revenue Contribution (%)	10%	56.48%	A	0.60
<i>Total Weighted Operating Performance</i>				1.20
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	934.66	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.99	Aa	0.30
Cash on Hand (days)	5%	215.57	Aa	0.15
<i>Total Weighted Wealth & Liquidity</i>				0.90
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	1.13	Aa	0.30
Total Debt to Cash Flow (x)	10%	7.21	Aa	0.30
<i>Total Weighted Leverage</i>				0.60
U. T. Dallas - Overall Rating & Numeric Score			Aa2	3.5
<hr/>				
U. T. El Paso	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	392.21	A	0.90
Annual Change in Operating Revenues (%)	5%	2.41%	Baa	0.45
<i>Total Weighted Market Profile</i>				1.35
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	8.15%	A	1.20
Max. Single Revenue Contribution (%)	10%	44.92%	Aa	0.30
<i>Total Weighted Operating Performance</i>				1.50
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	430.14	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.74	Aa	0.30
Cash on Hand (days)	5%	116.00	A	0.30
<i>Total Weighted Wealth & Liquidity</i>				1.05
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	1.90	Aa	0.30
Total Debt to Cash Flow (x)	10%	4.84	Aa	0.30
<i>Total Weighted Leverage</i>				0.60
U. T. El Paso - Overall Rating & Numeric Score			Aa3	4.5

**Appendix B - Calculation of Overall Scorecard Rating
Academic Institutions
As of August 31, 2019**

U. T. Permian Basin	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	70.34	Baa	1.35
Annual Change in Operating Revenues (%)	5%	-7.42%	C	0.90
<i>Total Weighted Market Profile</i>				<u>2.25</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	-10.68%	C	3.60
Max. Single Revenue Contribution (%)	10%	33.46%	Aaa	0.10
<i>Total Weighted Operating Performance</i>				<u>3.70</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	82.91	A	0.90
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.49	A	0.60
Cash on Hand (days)	5%	68.37	A	0.30
<i>Total Weighted Wealth & Liquidity</i>				<u>1.80</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	0.53	A	0.60
Total Debt to Cash Flow (x)	10%	(11.94)	C	1.80
<i>Total Weighted Leverage</i>				<u>2.40</u>
U. T. Permian Basin - Overall Rating & Numeric Score			Baa3	10.2
<hr/>				
U. T. Rio Grande Valley	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	438.03	Aa	0.45
Annual Change in Operating Revenues (%)	5%	2.83%	Baa	0.45
<i>Total Weighted Market Profile</i>				<u>0.90</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	1.19%	Baa	1.80
Max. Single Revenue Contribution (%)	10%	28.30%	Aaa	0.10
<i>Total Weighted Operating Performance</i>				<u>1.90</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	264.18	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.49	A	0.60
Cash on Hand (days)	5%	162.98	Aa	0.15
<i>Total Weighted Wealth & Liquidity</i>				<u>1.20</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	4.41	Aaa	0.10
Total Debt to Cash Flow (x)	10%	10.25	A	0.60
<i>Total Weighted Leverage</i>				<u>0.70</u>
U. T. Rio Grande Valley - Overall Rating & Numeric Score			A1	4.7

**Appendix B - Calculation of Overall Scorecard Rating
Academic Institutions
As of August 31, 2019**

U. T. San Antonio	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	513.62	Aa	0.45
Annual Change in Operating Revenues (%)	5%	2.34%	Baa	0.45
<i>Total Weighted Market Profile</i>				<u>0.90</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	9.10%	A	1.20
Max. Single Revenue Contribution (%)	10%	49.60%	Aa	0.30
<i>Total Weighted Operating Performance</i>				<u>1.50</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	559.72	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.84	Aa	0.30
Cash on Hand (days)	5%	246.35	Aa	0.15
<i>Total Weighted Wealth & Liquidity</i>				<u>0.90</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	2.02	Aa	0.30
Total Debt to Cash Flow (x)	10%	4.66	Aa	0.30
<i>Total Weighted Leverage</i>				<u>0.60</u>
U. T. San Antonio - Overall Rating & Numeric Score			Aa3	3.9
<hr/>				
U. T. Tyler	Weight	Value	Rating	Weighted Scale
<i>Market Profile:</i>				
Operating Revenue (\$ in millions)	15%	136.27	A	0.90
Annual Change in Operating Revenues (%)	5%	1.29%	Ba	0.60
<i>Total Weighted Market Profile</i>				<u>1.50</u>
<i>Operating Performance:</i>				
Operating Cash Flow Margin (%)	20%	6.43%	A	1.20
Max. Single Revenue Contribution (%)	10%	45.84%	Aa	0.30
<i>Total Weighted Operating Performance</i>				<u>1.50</u>
<i>Wealth & Liquidity:</i>				
Total Cash & Investments (\$ in millions)	15%	166.02	Aa	0.45
Spendable Cash & Inv. to Operating Exp. (x)	10%	0.83	Aa	0.30
Cash on Hand (days)	5%	199.20	Aa	0.15
<i>Total Weighted Wealth & Liquidity</i>				<u>0.90</u>
<i>Leverage:</i>				
Spendable Cash & Inv. to Total Debt (x)	10%	1.63	Aa	0.30
Total Debt to Cash Flow (x)	10%	8.60	Aa	0.30
<i>Total Weighted Leverage</i>				<u>0.60</u>
U. T. Tyler - Overall Rating & Numeric Score			Aa3	4.5

Appendix B - Calculation of Overall Scorecard Rating
Health Institutions
As of August 31, 2019

Southwestern	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	3,339.33	Aa	0.75
3-year Operating Revenue CAGR (%)	10%	6.33%	A	0.60
<i>Total Weighted Market Position</i>				1.35
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	10.62%	A	0.90
Gross Revenue from Combined Medicare & Medicaid (%)	10%	49.14%	A	0.60
Cash on Hand (days)	10%	153.39	A	0.60
<i>Total Weighted Operating Performance & Liquidity</i>				1.50
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	113.11%	A	0.90
Total Debt to Cash Flow (x)	15%	3.86	A	0.90
<i>Total Weighted Leverage</i>				1.80
Southwestern - Overall Rating & Numeric Score			A1	5.3
UTMB	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	2,229.15	Aa	0.75
3-year Operating Revenue CAGR (%)	10%	4.73%	A	0.60
<i>Total Weighted Market Position</i>				1.35
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	7.14%	Baa	1.35
Gross Revenue from Combined Medicare & Medicaid (%)	10%	49.22%	A	0.60
Cash on Hand (days)	10%	105.55	Baa	0.90
<i>Total Weighted Operating Performance & Liquidity</i>				2.85
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	71.21%	Baa	1.35
Total Debt to Cash Flow (x)	15%	6.16	Ba	1.80
<i>Total Weighted Leverage</i>				3.15
UTMB - Overall Rating & Numeric Score			A3	7.4
UTHSC-Houston	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	1,724.78	Aa	0.75
3-year Operating Revenue CAGR (%)	10%	3.80%	A	0.60
<i>Total Weighted Market Position</i>				1.35
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	4.55%	Ba	1.80
Gross Revenue from Combined Medicare & Medicaid (%)	10%	42.28%	Aa	0.30
Cash on Hand (days)	10%	184.13	A	0.60
<i>Total Weighted Operating Performance & Liquidity</i>				2.70
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	463.24%	Aaa	0.15
Total Debt to Cash Flow (x)	15%	2.08	Aa	0.45
<i>Total Weighted Leverage</i>				0.60
UTHSC-Houston - Overall Rating & Numeric Score			A1	4.7

Appendix B - Calculation of Overall Scorecard Rating
Health Institutions
As of August 31, 2019

UTHSC-San Antonio	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	926.28	A	1.50
3-year Operating Revenue CAGR (%)	10%	3.96%	A	0.60
<i>Total Weighted Market Position</i>				2.10
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	6.04%	Baa	1.35
Gross Revenue from Combined Medicare & Medicaid (%)	10%	50.25%	A	0.60
Cash on Hand (days)	10%	183.20	A	0.60
<i>Total Weighted Operating Performance & Liquidity</i>				2.55
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	319.40%	Aaa	0.15
Total Debt to Cash Flow (x)	15%	2.63	A	0.90
<i>Total Weighted Leverage</i>				1.05
UTHSC-San Antonio - Overall Rating & Numeric Score			A2	5.7
<hr/>				
M. D. Anderson	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	5,749.81	Aa	0.75
3-year Operating Revenue CAGR (%)	10%	8.18%	Aa	0.30
<i>Total Weighted Market Position</i>				1.05
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	20.24%	Aaa	0.15
Gross Revenue from Combined Medicare & Medicaid (%)	10%	42.31%	Aa	0.30
Cash on Hand (days)	10%	427.98	Aaa	0.10
<i>Total Weighted Operating Performance & Liquidity</i>				0.55
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	595.38%	Aaa	0.15
Total Debt to Cash Flow (x)	15%	0.76	Aaa	0.15
<i>Total Weighted Leverage</i>				0.30
M. D. Anderson - Overall Rating & Numeric Score			Aa1	1.9
<hr/>				
UTHSC-Tyler	Weight	Value	Rating	Weighted Scale
<i>Market Position:</i>				
Operating Revenue (\$ in millions)	25%	188.78	Ba	3.00
3-year Operating Revenue CAGR (%)	10%	-1.20%	B	1.50
<i>Total Weighted Market Position</i>				4.50
<i>Operating Performance & Liquidity:</i>				
3-year Operating Cash Flow Margin (%)	15%	-2.70%	Caa	2.70
Gross Revenue from Combined Medicare & Medicaid (%)	10%	61.92%	Baa	0.90
Cash on Hand (days)	10%	(28.89)	Ca & below	2.00
<i>Total Weighted Operating Performance & Liquidity</i>				5.60
<i>Leverage:</i>				
Unrestricted Cash & Inv. To Total Debt (%)	15%	-49.91%	Ca & below	3.00
Total Debt to Cash Flow (x)	15%	7.28	Ba	1.80
<i>Total Weighted Leverage</i>				4.80
UTHSC-Tyler - Overall Rating & Numeric Score			B2	14.9

**Appendix C - Calculation of Annual Operating Margin
Academic Institutions
As of August 31, 2019
(In Millions)**

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNP	Other Adjustments						Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Minus:	Minus:	Plus:	Plus:	Plus:	Plus:	
							Realized Gains/ (Losses)	TRB Appro.	AUF & RAHC Transfers & NSERB Appro.	ILP Funds Transfers	Hazelwood & NRUF Transfers	Interest Expense	
U. T. Arlington	\$ 68.1	3.8	(0.6)	(1.4)	2.7	63.5	2.0	12.8	-	-	1.0	(9.4)	40.2
U. T. Austin	(76.3)	38.2	(0.7)	(25.0)	123.0	(211.8)	0.6	19.7	404.0	-	1.5	(69.7)	103.6
U. T. Dallas	13.7	0.3	-	(0.5)	22.6	(8.7)	3.0	8.8	5.6	-	8.3	(25.1)	(31.7)
U. T. El Paso	11.7	-	(1.5)	(0.1)	2.4	11.0	0.4	12.7	-	-	0.5	(6.2)	(7.9)
U. T. Permian Basin	(14.8)	0.5	-	-	-	(14.8)	0.2	12.2	-	2.8	0.1	(4.0)	(28.4)
U. T. Rio Grande Valley	(25.2)	-	(0.1)	-	2.1	(27.2)	-	18.0	0.7	-	0.4	(2.6)	(46.8)
U. T. San Antonio	15.1	0.8	(0.1)	-	6.6	7.9	1.6	16.6	-	0.5	1.8	(9.8)	(17.9)
U. T. Tyler	0.9	-	-	-	0.5	0.3	-	9.9	-	-	0.3	(3.4)	(12.7)

**Appendix C - Calculation of Annual Operating Margin
Health Institutions
As of August 31, 2019
(In Millions)**

Institution	Income/(Loss) Before Other Rev., Exp., Gains/(Losses) & Transfers	Less: Nonoperating Items				Margin From SRECNP	Other Adjustments				Annual Operating Margin
		Other Nonop. Revenues	Other Nonop. Expenses	Gain/Loss on Sale of Cap. Assets	Net Increase/ (Decrease) in FV of Inv.		Minus: Realized Gains/ (Losses)	Minus: TRB Appro.	Plus: Other	Plus: Interest Expense	
Southwestern	\$ 144.8	1.9	(8.2)	(1.6)	(24.5)	177.2	56.4	18.5	-	(35.3)	67.1
UTMB	(5.2)	2.4	(0.2)	(3.4)	5.1	(8.9)	1.4	22.4	0.1	(23.4)	(56.1)
UTHSC-Houston	50.2	4.4	-	(0.5)	(3.5)	49.8	12.3	18.7	1.5	(6.5)	13.7
UTHSC-San Antonio	5.9	-	(0.2)	(4.2)	4.2	6.1	2.8	15.9	-	(5.5)	(18.1)
M. D. Anderson	955.1	27.3	(0.2)	0.3	73.6	854.1	55.9	11.3	-	(32.5)	754.4
UTHSC-Tyler	(6.2)	-	-	-	0.4	(6.6)	-	3.7	0.1	(0.8)	(11.0)

5. **U. T. System: Approval of the Fiscal Year 2021 Budget Preparation Policies, Calendar for budget operations, and amendments to the Annual Operating Budget Rules and Procedures**

RECOMMENDATION

With the concurrence of the Executive Vice Chancellor for Business Affairs, the Executive Vice Chancellor for Academic Affairs, and the Executive Vice Chancellor for Health Affairs, the Chancellor recommends that the U. T. System Board of Regents approve the Budget Preparation Policies set out below, the Calendar for budget operations on [Page 192](#), and amendments to the Annual Operating Budget Rules and Procedures on [Pages 193 - 205](#) for use in preparing the Fiscal Year (FY) 2021 Annual Operating Budget for the U. T. System.

U. T. System Fiscal Year 2021 Budget Preparation Policies

1. General Guidelines - The regulations and directives included in the *General Appropriations Act* as enacted by the 86th Texas Legislature serve as the basis for these guidelines and policies. In preparing the draft of the FY 2021 Operating Budget, the president of each institution should adhere to guidelines and policies as detailed below and as included in the *General Appropriations Act*. The Assistant Vice Chancellor, Budget and Planning will issue detailed instructions regarding the implementation of those regulations and directives into the institutional budget process.

The president of each institution should examine the resources used at the institution and, where possible, redirect resources toward high priority mission critical activities and strategic competitive investments that are consistent with the goals and objectives included in the institution's Strategic Plan.

Overall budget totals, including retaining reasonable reserves for potential future financial shortfall, must be limited to the funds available for the year from General Revenue Appropriations, Estimates of Educational and General Income, and limited use of institutional unappropriated balances.

2. Maintenance of Operating Margin and Use of Prior Year Balances - Institutions should make all reasonable efforts to maintain a favorable operating margin within the FY 2021 Operating Budget. Use of prior year balances should be limited to critical items, unique opportunities, or projects funded from prior year income committed for that purpose. Generally, balance usage should be reserved for nonrecurring activities. Balance usage cannot be recommended to the U. T. System Board of Regents for approval without the consent of the Chancellor, the appropriate Executive Vice Chancellor, and the Assistant Vice Chancellor, Budget and Planning.

3. Salary Guidelines - Recommendations regarding salary policy are subject to the following directives:
- A. Salaries Proportional by Fund - Unless otherwise restricted, payment for salaries, wages, and benefits paid from appropriated funds, including local funds and educational and general funds as defined in *Texas Education Code* Section 51.009 (a) and (c), shall be proportional to the source of funds.
 - B. Merit Increases and Promotions - Institutions should consider available resources and resolution of any major salary inequities when implementing merit salary increases for faculty and staff.

As defined in *Texas Education Code* Section 51.962, an employee must have been employed by the institution for the six months immediately preceding the effective date of the increase to be eligible for a merit increase, and at least six months must have elapsed since the employee's last merit salary increase. These limitations also apply to one-time merit payments.

Merit increases or advances in rank for faculty are to be on the basis of teaching effectiveness, research, and public service.

Merit increases or promotions for administrative and professional staff and classified staff are to be based on evaluation of performance in areas appropriate to work assignments.

In accordance with the Regents' *Rules and Regulations*, performance appraisals are to be conducted annually for all employees of the U. T. System. To verify compliance with this rule, U. T. System presidents and the Executive Vice Chancellor for Business Affairs for U. T. System Administration shall annually certify that all eligible employees (including staff and faculty) have completed performance appraisals.

- C. Other Increases - Equity adjustments, competitive offers, and increases to accomplish contractual commitments should also consider merit where appropriate, subject to available resources. Subject to guidance issued by the Assistant Vice Chancellor, Budget and Planning, such increases should be noted and explained in the supplemental data accompanying the budget.
- D. New Positions - Subject to available resources, new administrative and professional staff, classified staff, and faculty positions are to be requested only when justified by workloads or to meet needs for developing new programs.
- E. Reporting - The Assistant Vice Chancellor, Budget and Planning will issue guidance on reporting of compensation changes and amounts. It is expected that required reports will encompass highly compensated and high-ranking personnel covered by Regents' *Rules and Regulations*, Rules 20203 and 20204 along with those individuals receiving significant changes in compensation.

4. Staff Benefits Guidelines - Recommendations regarding the State contribution for employee staff benefits such as group insurance premiums, teacher retirement, and optional retirement are subject to legislative determination via the *General Appropriations Act*. Payments for benefits, including for retirees, should comply with the provisions of Accounting Policy Statements No. 11, "Benefits Proportional by Fund" and the *General Appropriations Act*. The Assistant Vice Chancellor, Budget and Planning will issue instructions regarding the implementation of the benefits into the budget process.
5. Other Employee Benefits - Employer contributions to the self-insured Unemployment Compensation Fund are based on an actuarial study. Workers' Compensation Insurance rates are experience-rated for each institution. Appropriate instructions will be issued regarding the implementation of Unemployment Compensation Fund and Workers' Compensation Insurance Benefits.
6. Other Operating Expenses Guidelines - Increases in Maintenance, Operation, Equipment, and Travel are to be justified by expanded workloads, for developing new programs, or for correcting past deferrals or deficiencies.
7. Calendar - In the event of unforeseen circumstances, authority is delegated to the Assistant Vice Chancellor, Budget and Planning to modify the Calendar.

BACKGROUND INFORMATION

The U. T. System FY 2021 Budget Preparation Policies are consistent with the regulations and directives included in the *General Appropriations Act* and other general law enacted by the 86th Texas Legislature. As written, this policy provides general direction to the U. T. System institutions. Changes to the Annual Operating Budget Rules and Procedures for FY 2021 represent alignment with applicable Regents' *Rules* with respect to budget amendments required to be submitted by institutions and approved by the Board. This change results in fewer approvals required by U. T. System Administration.



**THE UNIVERSITY OF TEXAS SYSTEM
FY 2021 OPERATING BUDGET CALENDAR**

January 2019 – August 2020	Performance appraisal focal period
February 27, 2020	U. T. System Board of Regents takes appropriate action on budget preparation policies and budget rules
April 13, 2020	Request for Library, Equipment, Repair and Rehabilitation new project instructions and information on balances subject to lapse are sent to institutions
May 4, 2020	Budget instructions issued by U. T. System Administration
May 11 – June 12, 2020	Institution Budget Meetings with U. T. System Administration
June 1, 2020	New Library, Equipment, Repair and Rehabilitation project requests are due to U. T. System Administration
June 12, 2020	Draft budget documents due to U. T. System Administration
June 15 – 19, 2020	Technical budget review with U. T. System Administration
June 26, 2020	Final budget documents due to U. T. System Administration
July 13, 2020	Reports on highly compensated staff covered by Regents' Rules 20203 and 20204, institutional Top Ten salaries and high-ranking staff salaries due to U. T. System Administration
July 31, 2020	Operating Budget Summaries provided to the U. T. System Board of Regents
August 19, 2020	Salary change report due to U. T. System Administration
August 20, 2020	U. T. System Board of Regents takes appropriate action on Operating Budget and President and Executive Officer compensation

THE UNIVERSITY OF TEXAS SYSTEM

BUDGET RULES AND PROCEDURES

For Fiscal Year Ending August 31, 2020~~20~~21

A. INITIAL BUDGET

1. Any transfers subsequent to the approval of the initial budget shall be made only after careful consideration of the allocations, transfer limitations, and general provisions of the current general appropriations act. (See B. Budget Amendments)
2. All appointments are subject to the provisions of the U. T. System Board of Regents' *Rules and Regulations* ("Regents' Rules") for the governance of The University of Texas System.
3. The established merit policy will be observed in determining salary rates.
4. All academic salary rates in the instructional departments of the academic institutions are nine-month rates (September 1 - May 31) unless otherwise specified. In the health-related institutions, all salary rates are twelve-month rates unless otherwise specified.
5. All appointments of classified personnel are based on twelve-month rates and are made within appropriate salary ranges as defined by the classified personnel Pay Plan approved by the president or Chancellor. All appointments of administrative and professional personnel are based on twelve-month rates.
6. Compensation for continuing personnel services (for a period longer than one month), though paid for on an hourly basis, is not to be paid out of maintenance and equipment, or like appropriations, except upon specific approval of the president of the institution or the Chancellor.
7. All maintenance and operation, equipment, and travel appropriations are for twelve months (September 1 - August 31) and should be budgeted and expended accordingly.

B. BUDGET AMENDMENTS

1. Items requiring approval of the U. T. System Administration and subsequent approval by the U. T. System Board of Regents through the Consent Agenda
 - a. New appointments of tenured faculty (Regents' Rule 31007).
 - b. Award of tenure to any faculty member (Regents' Rule 31007).
 - c. New appointments as Regental Professor (Regents' Rule 31001). Titles set forth in Regents' Rule 20301 including Chancellor Emeritus, President Emeritus and similar honorary designations are conferred by the U. T. System Board of Regents ~~through the full agenda~~.
 - d. Appointments, promotions, and salary increases involving the president (Regents' Rules 20201, 20202, 20203).
 - e. New contracts or contract changes involving athletic directors or head coaches whose total annual compensation, or total contractual compensation, equals or exceeds the amounts specified by Regents' Rule 10501 Section 2.2.12.
 - f. Compensation changes for Key Executives as defined by Regents' Rule 20203.
 - fg. Compensation changes for employees personnel whose total annual compensation for the first time is, or may exceed, \$1,000,000 during the year (Highly Compensated Personnel) and who are not subject to B.1.e or B.2.f or above (Regents' Rule 20204).
 - gh. Compensation changes for ~~Key Executives as defined by Regents' Rule 20203~~ Highly Compensated Personnel greater than five percent (Regents' Rule 20204).
 - hi. Increases in budgeted amounts from income or unappropriated balances for Educational and General, Auxiliary Enterprises, Designated Funds, Service Departments, Revolving Funds, and Plant Funds, subject to the thresholds established in B.5 below.
 - ij. Increases to Plant Funds which result from transfers from Educational and General Funds, Auxiliary Enterprises, Designated Funds, Service Departments, and Revolving Funds, subject to the thresholds established in B.5 below.
2. Items requiring approval of U. T. System Administration (no Consent Agenda approval required)
 - a. Reappropriation of prior year Educational and General Fund balances, subject to the thresholds established in B.5 below.
 - b. Increases in budgeted amounts from income or unappropriated balances for Educational and General, Auxiliary Enterprises, Designated Funds, Service Departments, Revolving Funds, and Plant Funds, subject to the thresholds established in B.5 below.

- c. Increases to Plant Funds which result from transfers from Educational and General Funds, Auxiliary Enterprises, Designated Funds, Service Departments, and Revolving Funds, subject to the thresholds established in B.5 below.
 - d. Compensation changes for employees Highly Compensated Personnel whose change in total annual compensation is \$500,000 or more but five percent or less than \$1,000,000 and whose initial compensation was previously approved by the U. T. System Board of Regents (Regents' Rule 20204).
 - ~~e. Compensation increases involving tenured faculty of \$10,000 or more at academic institutions and \$25,000 at health-related institutions. This includes one-time merit payments, incentive payments, and other compensation that are part of a tenured health faculty member's approved compensation plan (i.e. the XYZ Plan) do not require approval from U. T. System as long as the payments are within the approved plan maximum totals and the total of all compensation does not equal or exceed \$500,000.~~
 - fe. Appointments and promotions involving administrative and professional personnel reporting directly to the president.
 - ~~g. Compensation increases of \$10,000 or more involving administrative and professional personnel reporting directly to the President. This includes one-time merit payments.~~
3. Items requiring approval of the president only (Chancellor for U. T. System Administration)
- a. All interdepartmental transfers.
 - b. All budget transfers between line-item appropriations within a department.
 - c. Increases in budgeted amounts from income or unappropriated balances for Educational and General Funds, Auxiliary Enterprises, Designated Funds, Service Departments, and Revolving Funds, subject to the thresholds established in B.5 below.
 - d. Reallocation of unallocated Faculty Salaries. All unfilled and uncommitted line-item faculty salary positions will lapse to the institutional "Unallocated Faculty Salaries" account.
 - e. Reappropriation of Prior Year Educational and General Fund Balances, subject to the thresholds established in B.5 below.
 - f. Promotions involving tenured faculty.
 - g. New honorary title appointments as Dean Emeritus, Chair Emeritus, Professor Emeritus, and similar honorary designations (Regents' Rule 31001).
 - h. Transactions involving all other personnel except those specified in B.1.a, B.1b, B.1c, B.1d, B.1e, B.1f, B.1g, B.1h, B.2d, ~~B.2e, B.2f~~, and B.2ge as defined above.
 - i. Changes in sources of funds, changes in time assignments, and other changes in status for personnel categorized in Item B.1, provided no change in the individual's salary rate is involved. In the case of Medical Faculty, this provision applies to "Total Compensation."
 - j. Summer Session Budgets.

- k. Clinical faculty appointments or changes, including medical or hospital staff, without salary provided the clinical faculty member is not considered to be Highly Compensated Personnel.
4. Effective date of appointments and compensation increases
- a. Any increase in approved compensation for the current fiscal year without a change in classification or position is not to be effective prior to the first day of the month in which the required final approval of the rate change is obtained.
 - b. A compensation increase resulting from an appointment to another classification or to a position involving new and different duties may be made effective to the time of the first performance of duties under the new appointment.
 - c. The effective date of an appointment is the date on which the individual is first to perform service for the institution under that appointment.
 - d. The original appointment during a fiscal year of a person not in a budget for that year or not under an existing appointment for that year may relate back to the first performance of duties during the fiscal year although such person may have been employed in a previous fiscal year and although increased compensation for the same classification or position is involved.
5. Budget amendment criteria
- a. Institutions other than U. T. System Administration with budgeted revenue, including transfers from the Available University Fund, of \$1 billion or more will have a threshold of:
 - i. For B.1h and B.1i – Equal to or greater than \$5,000,000 (budget increase approval on Consent Agenda)
 - ii. For B.2a – Equal to or greater than \$2,000,000 (reappropriation of E&G balances approval by U. T. System Administration)
 - iii. For B.2b and B.2c – Equal to or greater than \$2,000,000 and less than \$5,000,000 (budget increase approval by U. T. System Administration)
 - iv. For B.3c and B.3e – Less than \$2,000,000 (approval by president)
 - b. Institutions other than U. T. System Administration with budgeted revenue, including transfers from the Available University Fund, between \$250 million and \$1 billion will have a threshold of:
 - i. For B.1h and B.1i – Equal to or greater than \$2,500,000 (budget increase approval on Consent Agenda)
 - ii. For B.2a – Equal to or greater than \$1,000,000 (reappropriation of E&G balances approval by U. T. System Administration)
 - iii. For B.2b and B.2c – Equal to or greater than \$1,000,000 and less than \$2,500,000 (budget increase approval by U. T. System Administration)
 - iv. For B.3c and B.3e – Less than \$1,000,000 (approval by president)

- c. Institutions other than U. T. System Administration with budgeted revenue, including transfers from the Available University Fund, less than \$250 million will have a threshold of:
 - i. For B.1h and B.1i – Equal to or greater than \$1,000,000 (budget increase approval on Consent Agenda)
 - ii. For B.2a – Equal to or greater than \$250,000 (reappropriation of E&G balances approval by U. T. System Administration)
 - iii. For B.2b and B.2c – Equal to or greater than \$250,000 and less than \$1,000,000 (budget increase approval by U. T. System Administration)
 - iv. For B.3c and B.3e – Less than \$250,000 (approval by president)

- d. U. T. System Administration will have a threshold of:
 - i. For B.1h and B.1i – Equal to or greater than \$1,000,000 (budget increase approval on Consent Agenda)
 - ii. For B.2a and B.3e – All amounts may be approved by the Chancellor (reappropriation of E&G balances)
 - iii. For B.2b, B.2c, and B.3c – All amounts less than \$1,000,000 may be approved by the Chancellor (budget increase approval)
 - iv. Notwithstanding i., ii., and iii., the Chancellor may authorize any budget amendment in the U. T. System revolving insurance funds without limitation.

C. OTHER CONSIDERATIONS

1. All appropriations not actually expended or encumbered by August 31 will automatically lapse to the Unappropriated Balance Account except for those reallocated pursuant to Item B.2a and Item B.3e.
2. Compensation indicated as "MSRDP Funds," "DSRDP Funds," "PRS Funds," "FSRDP Funds," "Allied Health Faculty Services Plan" or "Nursing Clinical Enterprise Health Services, Research and Development Plan" is contingent upon its being earned or available in accordance with the regulations applicable to the appropriate Medical Service Research and Development Plan, Dental Service Research and Development Plan, Physicians Referral Service Plan, Faculty Services Research and Development Plan, Allied Health Faculty Services Plan, or Nursing Clinical Enterprise Health Services Research and Development Plan.
3. Budgeted expenditures authorized from sources of funds other than Educational and General Funds are contingent upon receipt of such funds. Appointments from such fund sources will not become an obligation of the institution in the event the supplemental or grant funds are not realized.
4. Leaves of Absence may be granted only in accordance with provisions contained in Regents' *Rule* 30201.
5. In these Rules, Compensation means total annual compensation as defined by Regents' *Rule* 20204 or total compensation under a multiyear contract.
6. Appropriations of the Available University Fund are subject to the appropriation limitations and notice requirements found in the General Appropriations Act.

THE UNIVERSITY OF TEXAS SYSTEM

~~ACADEMIC FACULTY~~ WORKLOAD REQUIREMENTS FOR ACADEMIC INSTITUTIONS

For Fiscal Year Ending August 31, 202~~0~~21

Academic Faculty Workload Requirements for General Academic Institutions

The general workload ~~requirements policy~~ for faculty employed at U. T. System academic institutions ~~are~~ is set forth in Regents' *Rule* 31006. Through established shared governance processes, each academic institution has been authorized by the U. T. System Board of Regents to establish a faculty workload policy that adheres to the provisions and reporting requirements of *Rule* 31006. As required by *Texas Education Code Section* 51.402 and *Rule* 31006, each academic institution has included their faculty workload policy in this operating budget.

THE UNIVERSITY OF TEXAS SYSTEM

MEDICAL, DENTAL, NURSING, FACULTY SERVICES RESEARCH AND DEVELOPMENT PLANS, ALLIED HEALTH FACULTY SERVICES PLAN AND PHYSICIANS REFERRAL SERVICE

For Fiscal Year Ending August 31, 2020~~20~~21

Rules and Procedures

1. These Rules and Procedures are to be used for the Medical, Dental, Nursing, and Faculty Services Research and Development Plans, the Allied Health Faculty Services Plan and Physicians Referral Service ("the Plans") Budgets in conjunction with the Rules and Procedures for the General Operating Budget.
2. Budgeted expenditures authorized from the Plans are contingent upon receipt of such funds. Appointments and other budget transactions from such fund sources shall not become an obligation of any institution in the event the funds are not realized.
3. All income for professional services earned by members of the plans, except royalties, payments for editing scientific publications, and consultation fees as a regional or national consultant to any branch of the U.S. Government as approved by the U. T. System Board of Regents shall be deposited in the appropriate institution's institutional Trust Fund Account.
4. Administration, operation, and disbursement of funds shall be in accordance with each institutional plan approved by U. T. System Administration and the U. T. System Board of Regents.
5. At U. T. M. D. Anderson Cancer Center, associate members' earnings will be contingent upon the earned income of the member in accordance with the services rendered to the patient assigned to the member's specialty by the chief of the major service. All payments will be approved by the Executive Council of the Physicians Referral Service.
6. Budgeted funds can be used for staff retirement and insurance benefits, for actual travel or supplemental travel expenses for attending meetings for the benefit of any institution, for memberships and dues in medical organizations, for official entertainment, and for such other disbursements as may be authorized by the president consistent with the policies approved by the U. T. System Board of Regents and the U. T. System Administration. These expenditures must be in the best interests of the research, educational and patient care activities of any institution and in the best interest of maintaining a distinguished scientific staff for such purposes and activities.

THE UNIVERSITY OF TEXAS SYSTEM

PERMANENT UNIVERSITY FUND (PUF) BOND PROCEEDS FOR LIBRARY, EQUIPMENT, REPAIR AND REHABILITATION (LERR) AND FACULTY SCIENCE AND TECHNOLOGY ACQUISITION AND RETENTION (STARS) AND SIMILAR FUNDED PROGRAMS BUDGET RULES AND PROCEDURES

For Fiscal Year Ending August 31, 2020~~20~~21

A. INITIAL BUDGET

1. U. T. System institutions are authorized to purchase approved Library and Equipment items and to contract for Repair and Rehabilitation projects following standard purchasing and contracting procedures. This includes expenditures for Faculty STARS or similar funded programs.
2. Transfers by the U. T. System Administration of allocated funds to institutional control or to vendors will coincide with vendor payment requirements.
3. Final approval of specific Repair and Rehabilitation projects will be in accordance with U. T. System Board of Regents established procedures for construction projects.
4. All expenditures are subject to the provisions of the *Constitution* of the State of Texas and the U. T. System Board of Regents' *Rules and Regulations* for the governance of The University of Texas System.

B. BUDGET AMENDMENTS

1. Items requiring approval of the U. T. System Administration and subsequent approval by the U. T. System Board of Regents through the Consent Agenda
 - a. Substitute Library and Equipment purchases in excess of \$1 million that are not on the approved list.
 - b. Funding for new Repair and Rehabilitation projects in excess of \$1 million that are not on the approved list.
2. Items requiring approval of U. T. System Administration (no Consent Agenda approval required)
 - a. Substitute Library and Equipment purchases of \$1 million or less that are not on the approved list.
 - b. Funding for new Repair and Rehabilitation projects of \$1 million or less that are not on the approved list.
 - c. Transfers of appropriated funds between approved Library and Equipment items.
 - d. Transfers of appropriated funds between Repair and Rehabilitation items.
 - e. Transfers of funds for approved Library and Equipment purchases to fund approved Repair and Rehabilitation projects and vice versa.
 - f. All transfers of funds are subject to the requirements of the *UTS 168 Capital Expenditure Policy*.
 - g. [Transfer of STARS funding between the Faculty STARS program and the Rising STARS program.](#)

C. OTHER CONSIDERATIONS

1. All Library and Equipment or Repair and Rehabilitation appropriations must be expended within 36 months from the date of the award or the appropriation will lapse and be made available for future Systemwide reallocation.
2. All Faculty STARS or similar program appropriations must be expended within 36 months from the time the faculty member arrives on campus or the appropriation will lapse and be made available for future Systemwide reallocation.
3. Notwithstanding the limitations adopted at the time LERR, Faculty STARS, or other similar funding was authorized, these *Budget Rules and Procedures* apply to all previously authorized LERR, Faculty STARS and similar funding.
4. In accordance with the *UTS 168 Capital Expenditure Policy*, LERR and Faculty STARS funding that is incorporated into a Major Project will be defined as PUF and will be subject to rules applicable to all Major Projects. Major Projects are defined by Regents' *Rule 80301*.

THE UNIVERSITY OF TEXAS SYSTEM

PERMANENT UNIVERSITY FUND (PUF) BOND PROCEEDS FOR LIBRARY, EQUIPMENT, REPAIR AND REHABILITATION (LERR) AND FACULTY SCIENCE AND TECHNOLOGY ACQUISITION AND RETENTION (STARS) AND SIMILAR FUNDED PROGRAMS EXPENDITURE GUIDELINES

For Fiscal Year Ending August 31, 202~~0~~21

A. AUTHORIZATION OF PUF BOND PROCEEDS FOR LERR, STARS, OR SIMILAR FUNDED PROGRAMS

Article VII, Section 18 (b) of the Texas *Constitution* authorizes the U. T. System Board of Regents to issue bonds and notes secured by the U. T. System's interest in the Permanent University Fund for the purpose of:

- acquiring land, with or without permanent improvements;
- constructing and equipping buildings or other permanent improvements;
- major repair and rehabilitation of buildings and other permanent improvements;
- acquiring capital equipment; and
- acquiring library books and library materials.

It is for the last three purposes noted above that the U. T. System Board of Regents has established the LERR, Faculty STARS, and similar funded programs.

B. RETENTION OF RECORDS

The Internal Revenue Service requires that invoice documentation supporting capital expenditures, including LERR, Faculty STARS and similar programs funded with proceeds of tax-exempt bonds, be maintained for a period ending three (3) years after the complete extinguishment of the bonds. Pursuant to the Texas *Constitution*, PUF bonds may be structured with a maximum maturity of 30 years. In order to comply with the IRS requirement and *UTS 181 Policy for Post Bond Issuance Federal Tax Compliance*, U. T. institutions shall maintain invoice documentation for 35 years for any capital expenditures funded with tax-exempt proceeds.

C. ELIGIBILITY FOR PROGRAM FUNDS

Eligibility for LERR, STARS, or other similar funded programs is the same as eligibility for PUF bond proceeds as set forth in the *Constitution*.

D. GENERAL GUIDELINES FOR USE OF PROGRAM FUNDS

In addition to meeting the constitutional requirements outlined above, the general guideline to determine whether an item is eligible for LERR, Faculty STARS, or similar funded programs, is that it must have a useful life of at least one year. The following sections are provided to assist with that determination. These guidelines are not intended to be exhaustive and any questions regarding LERR, Faculty STARS, or similar funded program eligibility should be directed to the U. T. System Administration Office of Budget and Planning.

Repair and Rehabilitation of Buildings or Other Permanent Improvements

Major repairs or rehabilitation of buildings or other permanent improvements include, but are not limited to, repairs, renovations, replacements, or betterments that are normally expected to extend the useful life, improve operating efficiency, eliminate health and safety hazards, correct structural or mechanical defects, upgrade the quality of existing facilities, or convert these assets to more useful functions, but that are not considered routine maintenance.

The cost of major repairs or rehabilitation of buildings or other improvements can include the contract price or cost of construction and other costs that would be applicable to make the building or improvement suitable for its intended use.

Acquisition of Capital Equipment

Capital equipment is generally regarded as nonexpendable, tangible personal property having a useful life of more than one year. The acquisition cost for equipment includes the net invoice price, including any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. In addition, taxes, duty, in-transit insurance, freight, and installation charges are also included as part of the acquisition cost. Capital equipment, including software, that will be used Systemwide, or between and among U. T. institutions and System Administration, is eligible for LERR, Faculty STARS, or similar program funds.

Warranties and Similar Service Features

The cost of warranties and similar service features related to a purchase of capital equipment (such as maintenance agreements and loaner programs) are not eligible for LERR, Faculty STARS, or similar program funds as these are considered operating expenses. This ineligibility also applies to warranty and similar service feature costs separately identified during original purchase. For example, a warranty agreement charge that is separately identified on a Laptop purchase is not allowed.

Software

Any capitalized costs associated with the development or implementation of software, including personnel costs (salaries), are eligible for LERR, Faculty STARS, or similar funded programs if they are incurred in the Application Development Stage. This principle applies whether the salaries are paid to employees of the institution or to outside parties. See *UTS 142.13 Accounting and Financial Reporting for Intangible Assets* at <https://www.utsystem.edu/sites/policy-library/policies/uts-14213-accounting-and-financial-reporting-intangible-assets>. Training costs related to software usage are discussed below.

The purchase of bundled software included as part of the initial acquisition of computer hardware is capitalizable regardless of threshold and therefore eligible for LERR, Faculty STARS, or similar program funds.

Software maintenance costs are considered operating expenses and therefore are not eligible for LERR, Faculty STARS, or similar program funds as these are considered operating expense.

Costs for software licenses with a useful life extending beyond one year that will be owned are eligible for LERR, Faculty STARS, or similar program funds. Leased or licensed software that requires the payment of an annual fee (i.e., does not have a useful life extending beyond one year) and that will not be owned when the license expires is not eligible for LERR, Faculty STARS, or similar program funds.

Employee Training and Travel Costs

Employee training and travel costs are not eligible for LERR or STARS program funds as these are considered operating expenses.

Operating Expenses

Consumables, which generally include those items that have an expected useful life of less than one year, are not eligible for LERR or STARS program funds as these are considered operating expenses. Some examples include, but are not limited to: chemicals, gases, paper, staplers and other office supplies, toner cartridges, medical supplies, disposal services, and laboratory supplies.

Examples of other operating expenses that are not eligible for LERR or STARS program funds include, but are not limited to: monthly telephone services, animals, software maintenance cost, and routine maintenance.

Acquisition of Library Books and Library Materials

The acquisition of library books and library materials is eligible for LERR. A library book is generally defined as a literary composition bound into a separate volume and identifiable as a separate copyrighted unit. Library materials are information sources other than books, including journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents, and similar items that provide information essential to the learning process or enhance the quality of university library programs. A purchase of a license for library materials is allowable if the license period is in excess of one year. Annual license subscriptions and payments are not eligible for LERR.

The acquisition cost of library books and library materials can include the invoice price, freight-in, handling and insurance, binding, electronic access charges, reproduction and other like costs required to put these assets in place, except for library salaries.

Prohibition for Student Housing, Athletics, and Auxiliary Enterprises

Article VII, Section 18 (d) of the *Constitution* prohibits the use of PUF bond proceeds, and therefore the use of LERR, Faculty STARS, and similar program funds, for student housing, intercollegiate athletics, or auxiliary enterprises.

E. SPECIAL PROGRAM FUNDING

Faculty STARS Program

The Faculty STARS program funded by PUF bond proceeds supports the recruitment and retention of the best-qualified faculty at both academic and health institutions by providing additional resources to build and enhance research infrastructure. Because the STARS program is funded in the same manner as LERR, the same guidelines apply and each item must have a useful life of more than one year. STARS funds are available for laboratory renovation and equipment purchases; however, faculty and other staff salaries cannot be paid from STARS funds.

There are three related program goals that form the basis of the STARS program:

- recruit senior faculty with national prominence; and
- improve the quality of new faculty and research capacity of the institutions by augmenting the start-up packages for tenure and tenure-track faculty; and
- retain high quality faculty who have had offers from another research institution or have the potential to leave because of limited access to quality equipment or laboratories.

Rising STARS Program

The Rising STARS program makes up to \$250,000 available for recruitment of promising faculty members who are recruited in a tenure track position at any academic level, i.e. assistant, associate or full professor. Rising STARS funding is limited to the same equipment and renovation expenditure restrictions as Faculty STARS.

6. U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Update

Mr. Britt Harris, President, Chief Executive Officer, and Chief Investment Officer, will present an update on The University of Texas/Texas A&M Investment Management Company (UTIMCO) using the PowerPoint presentation on the following pages.



The University of Texas/Texas A&M Investment Management Company

UTIMCO Update

Mr. Britt Harris
President, CEO and Chief Investment Officer

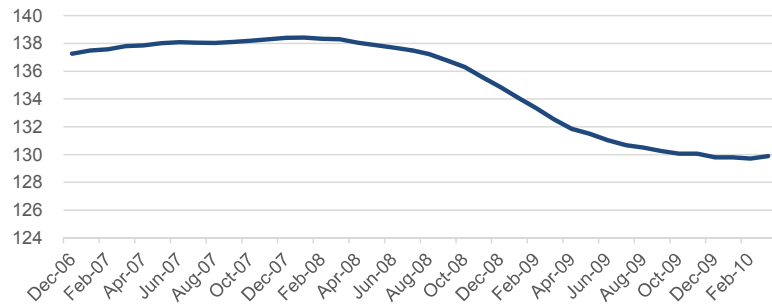
U. T. System Board of Regents' Meeting
Finance and Planning Committee
February 2020



Great Financial Crises

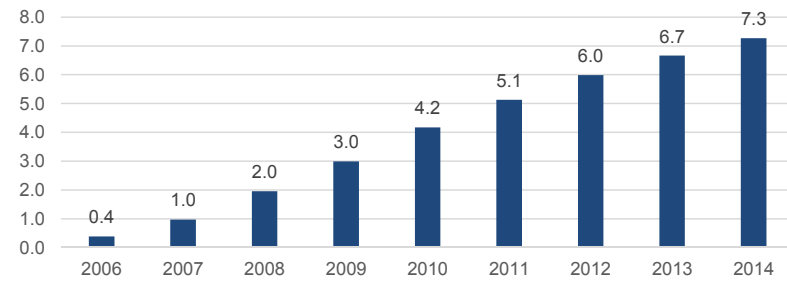
8.7 million jobs lost

US Non Farm Payrolls (millions)



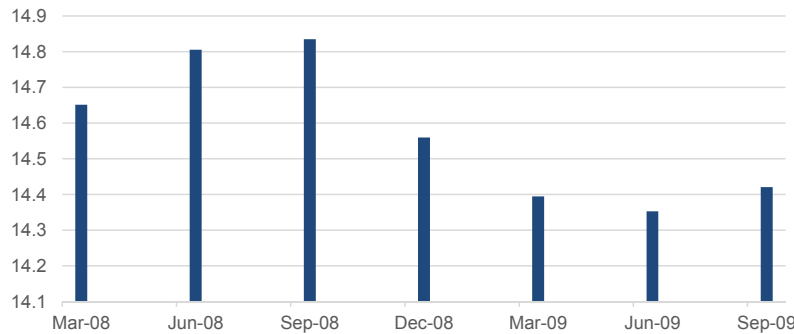
7.3 million homes foreclosed on

Cumulative Foreclosures (millions)



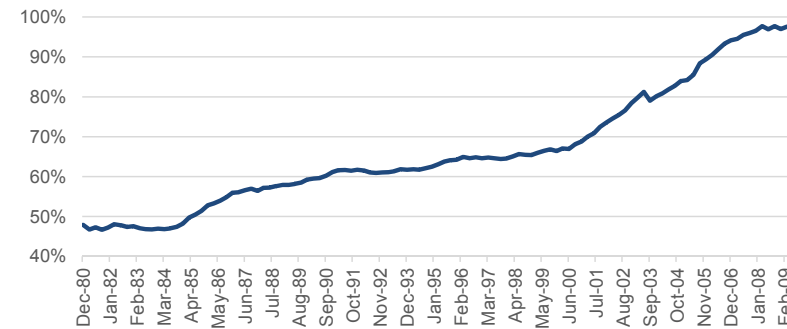
\$480 billion decline in GDP

US GDP (\$ trillion)



Consumers had spent decades leveraging up

US Household Debt as % of GDP



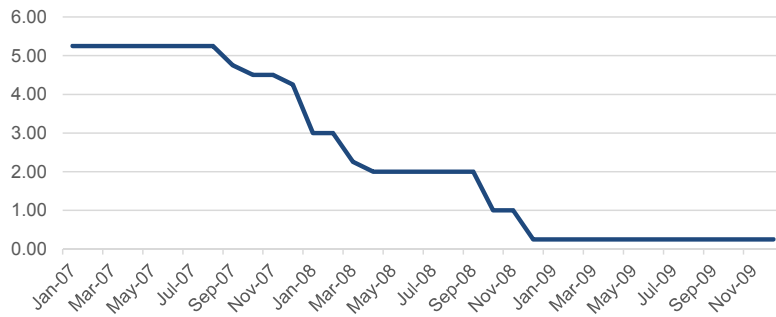
Source: Bloomberg, CoreLogic *United States Residential Foreclosure Crises*



U.S. Response

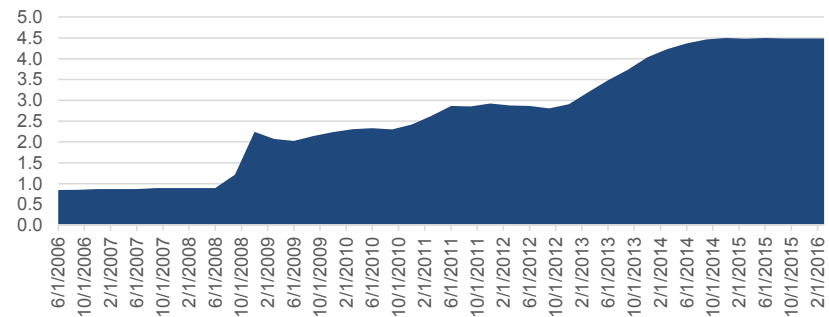
Federal Reserve cut rates from 5.25% to 0.25%

US Federal Funds Rate



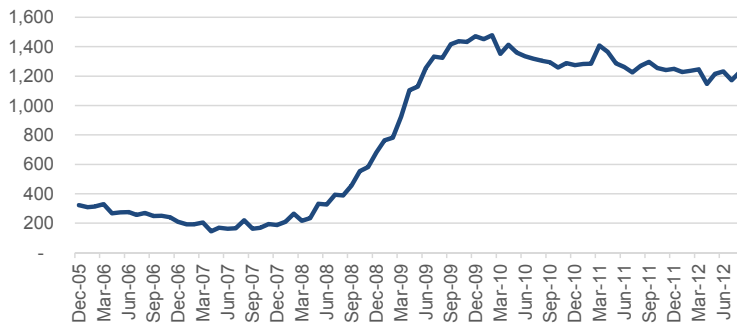
Fed Reserve balance sheet increased by \$3.6 trillion

Federal Reserve Balance Sheet (\$ trillion)



US deficit spending spiked up to \$1.4 trillion

US Deficit Spending 12M Trailing (\$ billions)



Source: Bloomberg, Goldman Sachs

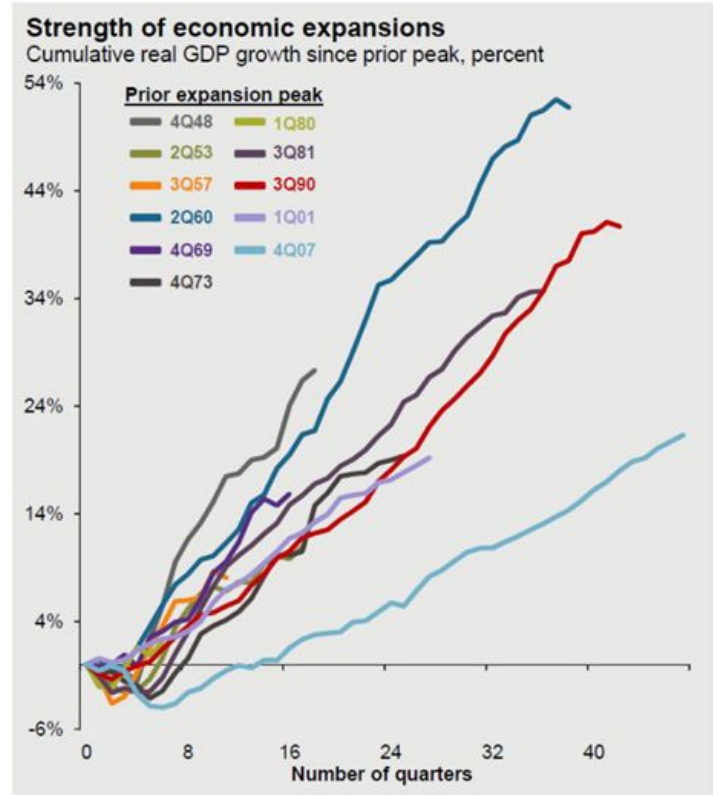
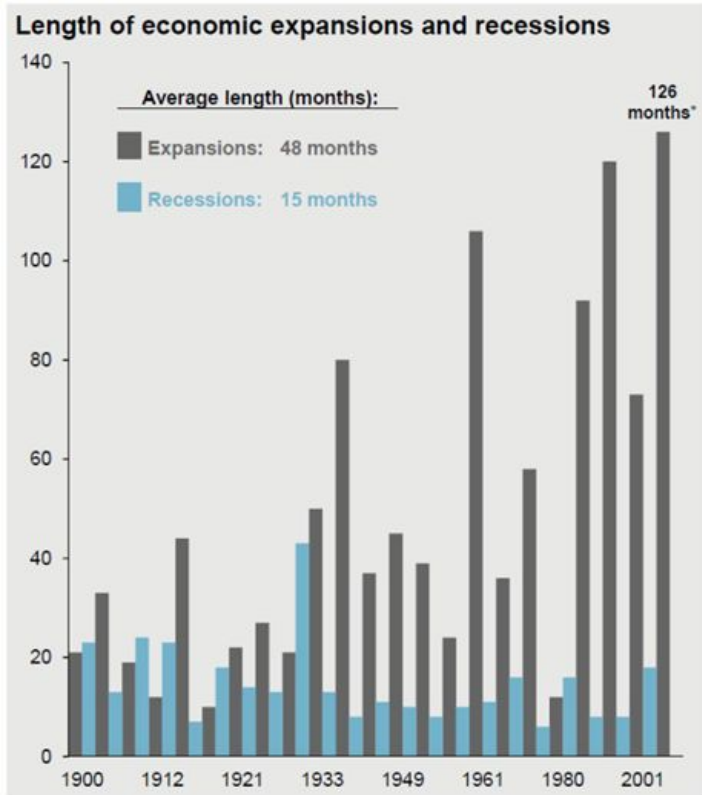
Focus on recapitalizing banks

Ratio of Tangible Common Equity / Tangible Common Assets





Expansion Review

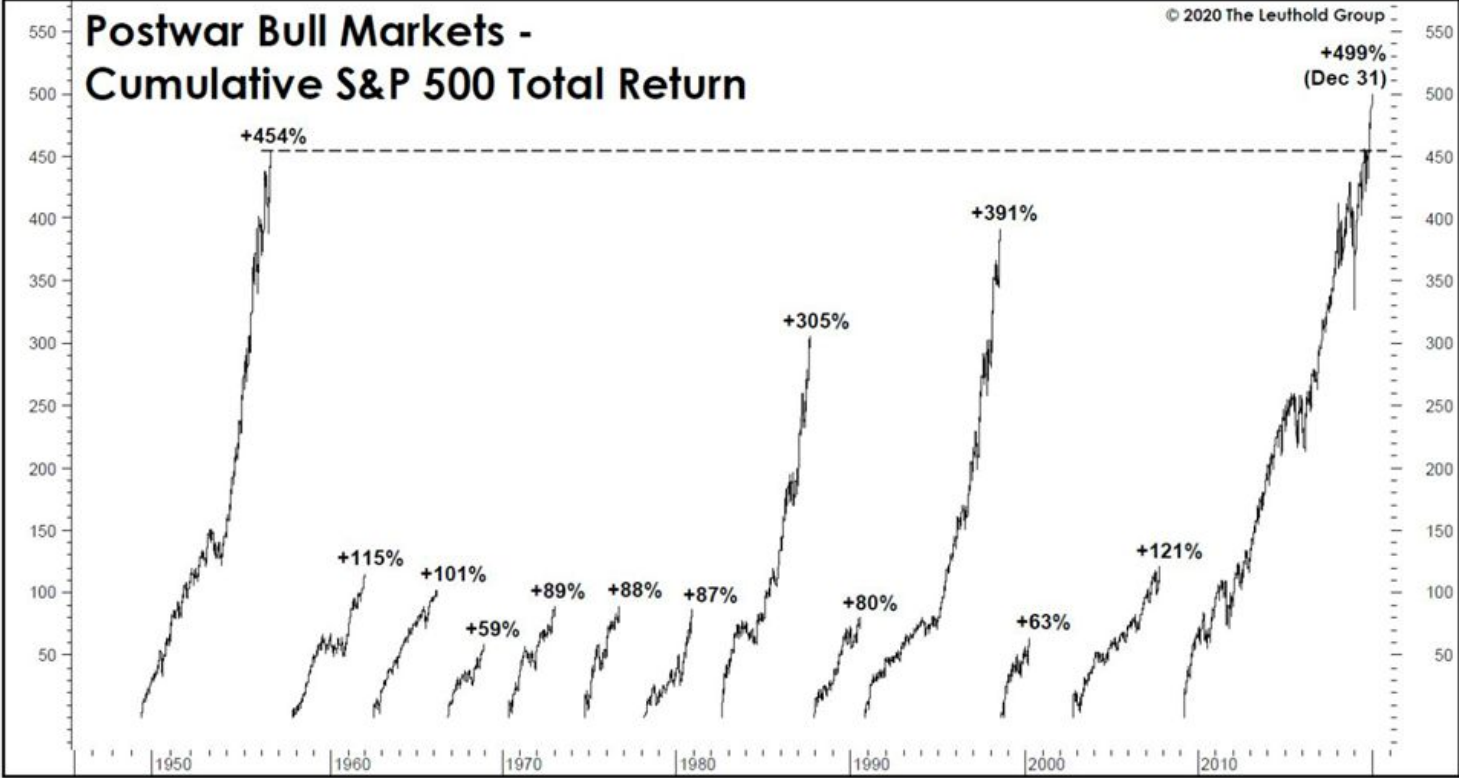


*Chart assumes current expansion started in July 2009 and has continued through December 2019, lasting 126 months so far

Source: JP Morgan Asset Management, Q1 2020 Guide to the Markets



Expansion Review (cont.)

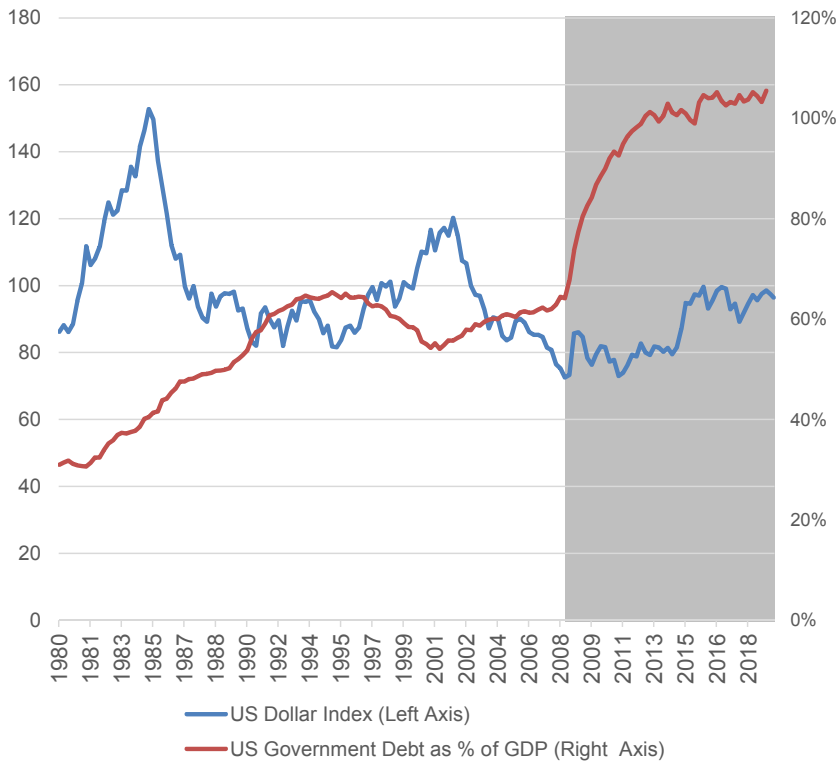


Source: Leuthold Group

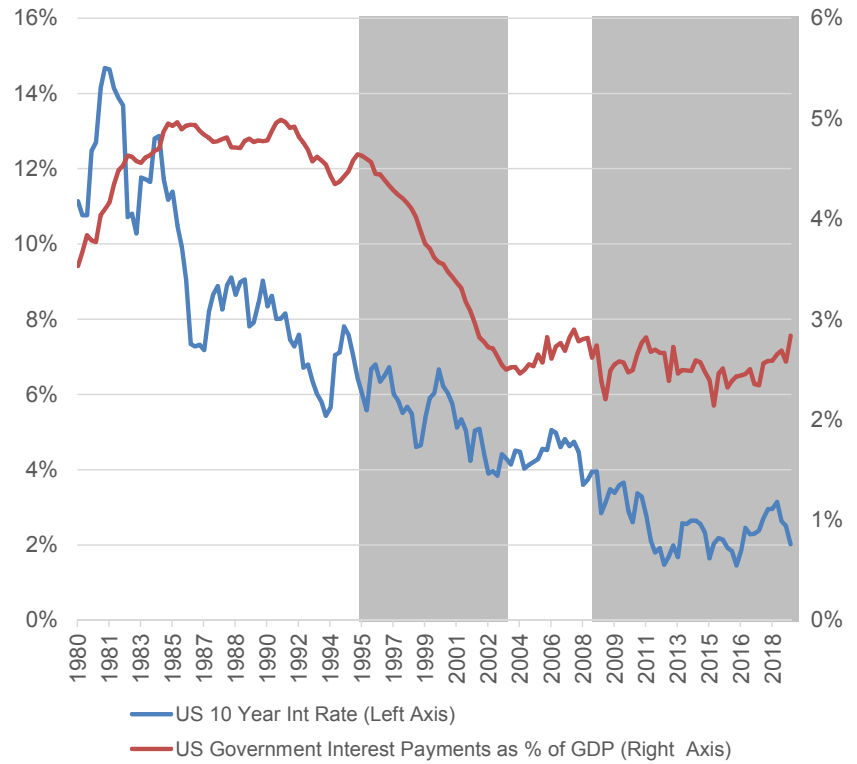


U.S. Dollar

US Dollar stable, even as Debt / GDP has doubled



Debt / GDP doubled, but rates down = debt service down

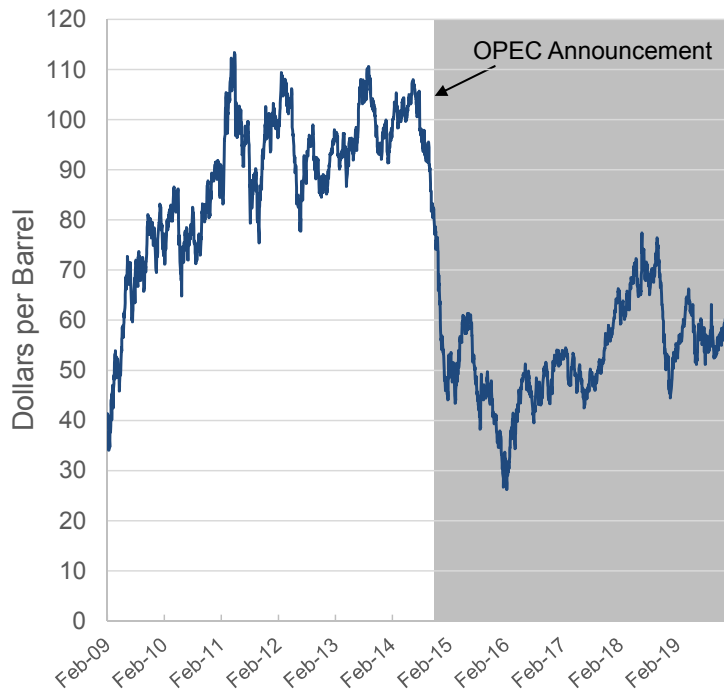


Source: Bloomberg



Oil Markets

Oil (West Texas intermediate) Spot Price



Source: Bloomberg, U.S. Energy Information Administration (EIA)

US Petroleum

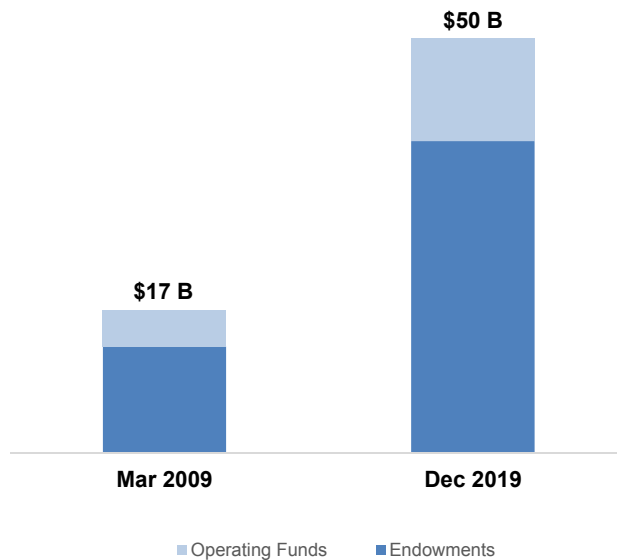


UTIMCO Results

March 2009 – December 2019



UTIMCO Total Assets Under Management



Endowment Returns

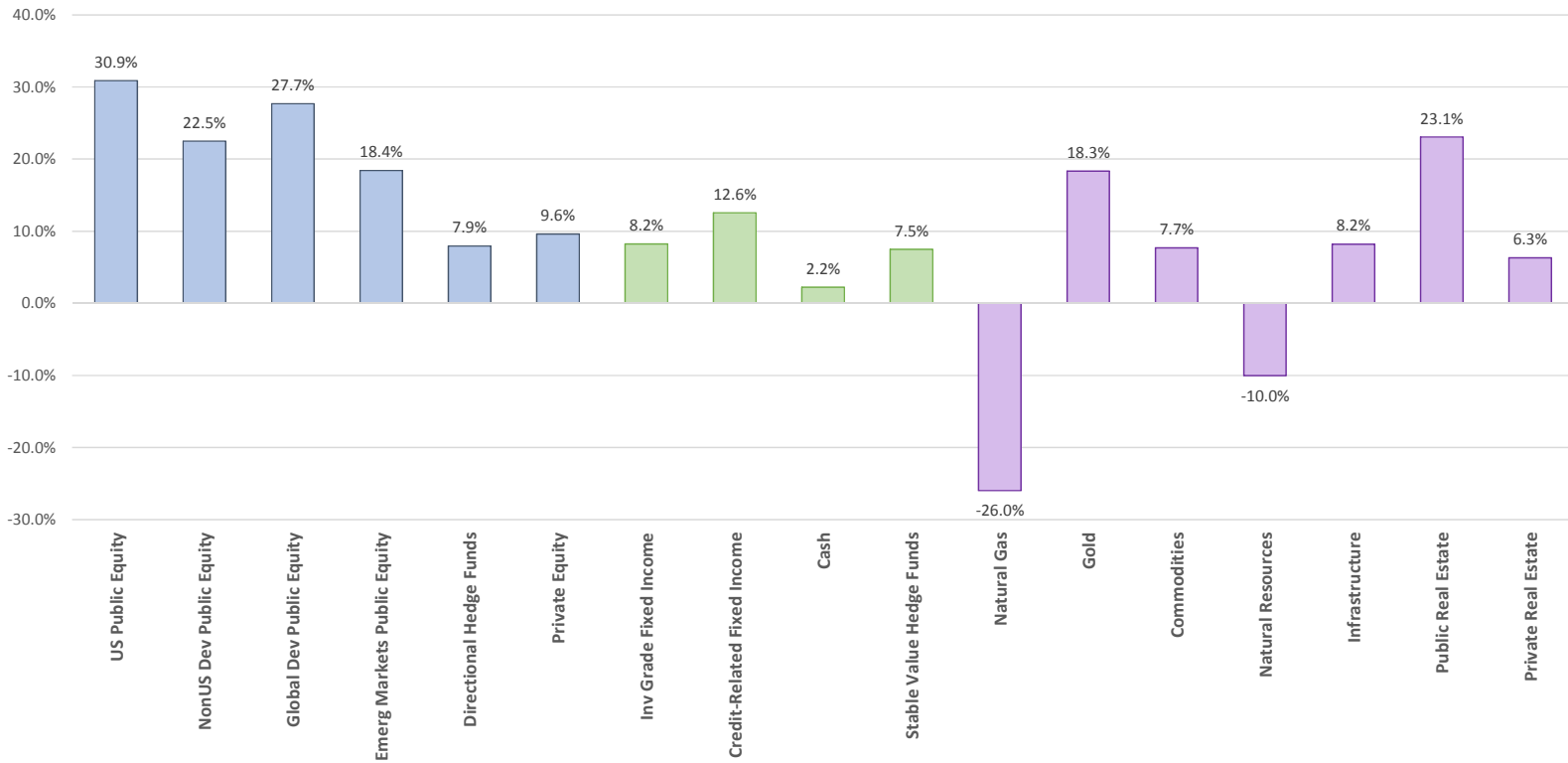
	UTIMCO	Benchmark	Alpha
Returns	10.0%	8.6%	1.4%
Standard Deviation	5.6%	6.3%	
Tracking Error	2.2%		
Information Ratio	0.64		
Beta	0.83		
Sharpe Ratio	1.69		

Benchmark Performance

One Year Ending December 2019



Year Ended December 2019

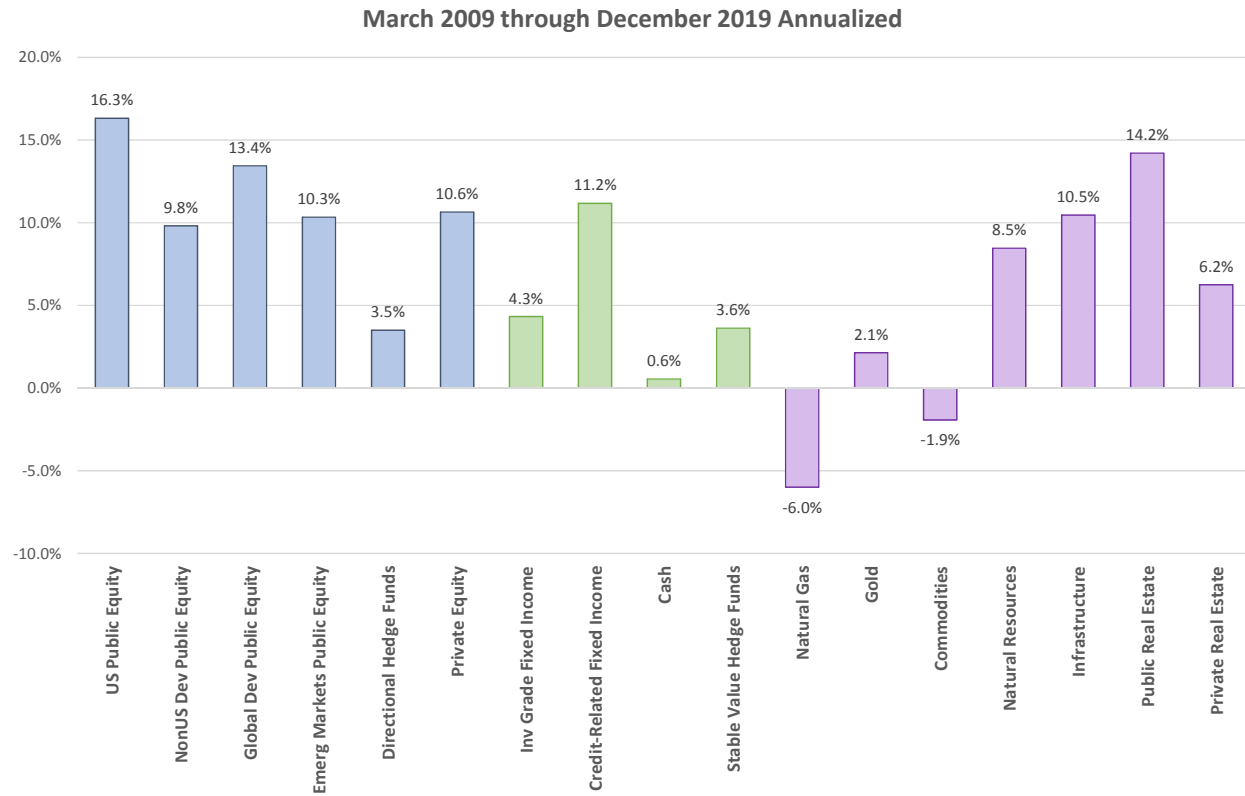


Benchmark Performance

Benchmark Returns from March 2009 to December 2019



Asset Class	Mar 2009 - Dec 2019 Cumulative
US Public Equity	414%
NonUS Dev Public Equity	175%
Global Dev Public Equity	292%
Emerg Markets Public Equity	190%
Directional Hedge Funds	45%
Private Equity	198%
Inv Grade Fixed Income	58%
Credit-Related Fixed Income	215%
Cash	7%
Stable Value Hedge Funds	47%
Natural Gas	-48%
Gold	40%
Commodities	-19%
Natural Resources	141%
Infrastructure	194%
Public Real Estate	360%
Private Real Estate	93%





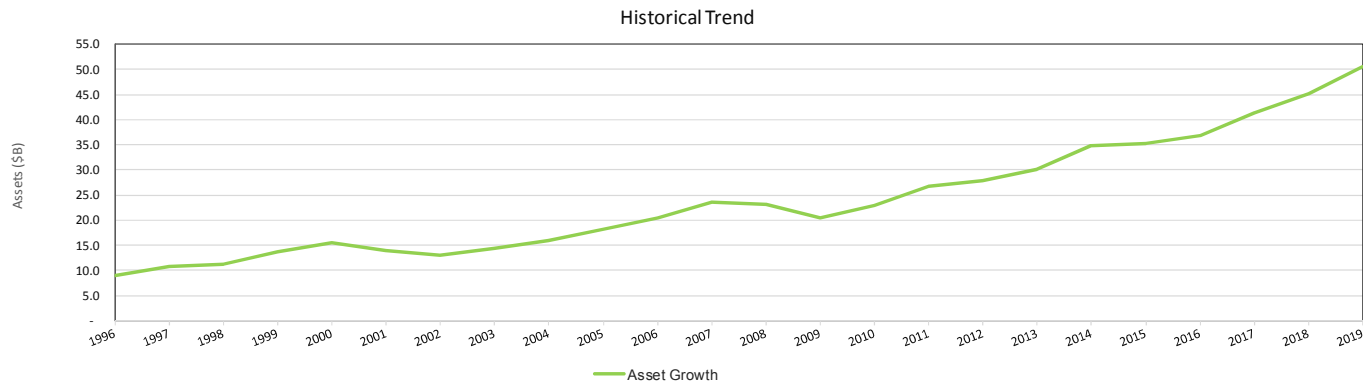
Overview of Funds

Period Ending December 31, 2019

Endowment Funds	\$B	Returns								Alpha						Fiscal YTD	
		1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	3 mth	Alpha
PUF	\$ 23.8	1.82	4.54	13.91	13.91	9.75	7.36	8.04	0.30	1.39	2.14	2.14	0.92	0.96	1.29	5.31	1.55
PHF	\$ 1.2	1.75	4.42	13.73	13.73	9.88	7.45	8.11	0.23	1.27	1.96	1.96	1.05	1.05	1.36	5.19	1.43
LTF	\$ 12.8	1.75	4.42	13.75	13.75	9.89	7.45	8.12	0.23	1.27	1.98	1.98	1.06	1.05	1.37	5.20	1.44
Other	\$ 0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$ 38.0																

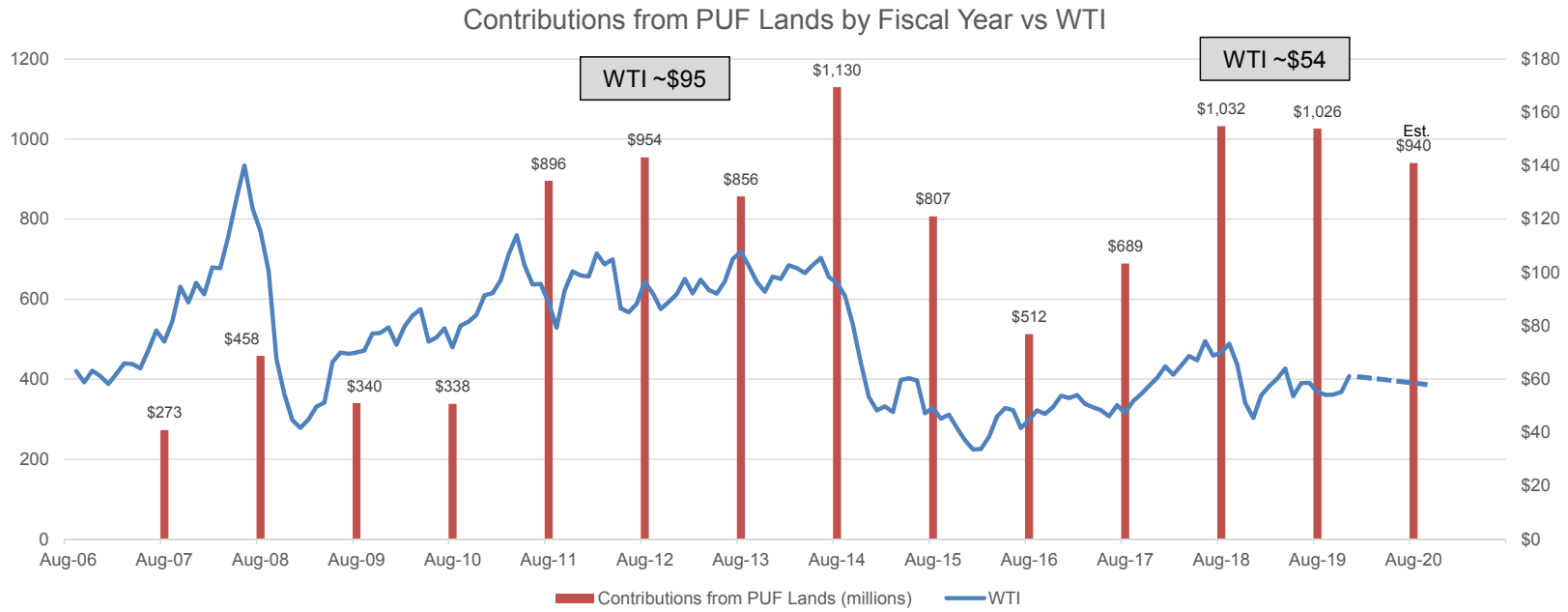
Operating Funds	\$	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	1 Mth	QTR	YTD	1Y	3Y	5Y	10Y	3 mth	Alpha
ITF	\$ 9.3	1.60	4.06	14.36	14.36	7.18	4.49	5.38	0.11	1.20	2.54	2.54	1.13	0.87	1.60	4.44	1.53
Debt Proceeds	\$ 0.5	0.15	0.47	2.31	2.31	1.81	1.23	N/A	0.01	0.01	0.03	0.03	0.14	0.16	N/A	0.65	0.01
STF	\$ 2.7	0.14	0.45	2.23	2.23	1.73	1.13	0.63	0.00	(0.01)	(0.05)	(0.05)	0.06	0.06	0.05	0.60	(0.04)
TOTAL	\$ 12.5																

All Assets	\$	Increase	Income & Distributions (\$M)				
			Projected 8/31/2020	8/31/2019	8/31/2018	8/31/2017	
September 2019	\$ 48.2	\$ 2.3	PUF Land Contributions	\$ 940	\$ 1,026	\$ 1,032	\$ 689
June 2019	\$ 47.3	\$ 1.4	PUF Distribution	(1,311)	(1,014)	(887)	(839)
March 2019	\$ 45.9	\$ 1.9	Net Payout (\$M)	\$ (371)	\$ 12	\$ 145	\$ (150)
December 2018	\$ 44.0						





Contributions from PUF Lands



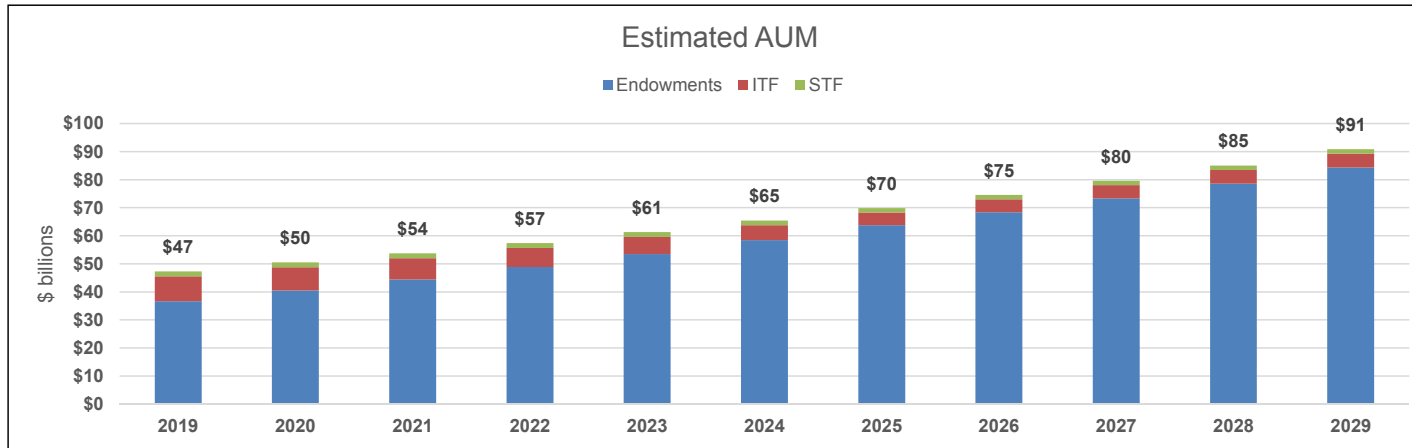
FY 2011-2014	
Average Contribution	\$959
Univ. Lands Avg. Prod.	10 MMBOE
WTI Avg Price	\$95
WTI High	\$113
WTI Low	\$73

FY 2015-2019	
Average Contribution	\$813
Univ. Lands Avg. Prod.	19 MMBOE
WTI Avg Price	\$54
WTI High	\$96
WTI Low	\$26



UTIMCO Strategic Plan: Forecast

Expected AUM Growth



Key drivers and assumptions:

- Total AUM expected to grow by \$44 billion from \$47 to \$91 billion over 10 years
 - \$16B transferred from ITF
 - \$3B new inflows from institutions
 - **\$11B royalties from University Lands**
 - \$42B investment returns (assumed at 7.3% annually)
 - \$(24B) total distributions (average 4.5% of beginning net asset value)

- 94% total increase over next 10 years at 6.8% compound annual growth rate



Getting to \$11B

	Reduced Mgmt.	Existing Mgmt.	Proposed Mgmt.
Oil Price Average	\$57.2	\$57.2	\$57.2
Gas Price Average	\$2.3	\$2.3	\$2.3
Net PUF Revenue (\$ billion)	\$6.8	\$9.2	\$11.1
2019 Production MMBOE (Actual)	23.5	23.5	23.5
2029 Production MMBOE (Expected)	16.4	23.0	30.0
2019 to 2029 Cumulative Production Growth	-30%	-2%	28%
2019 to 2029 Annual Production Growth	-3.5%	-0.2%	2.5%

Futures Markets	Oil
2020	\$55.3
2021	\$52.6
2022	\$51.5
2023	\$51.6
2024	\$51.7
2025	\$52.2

U.S. Energy Information Administration 2050 Baseline:
\$100 (1.6% annualized growth)

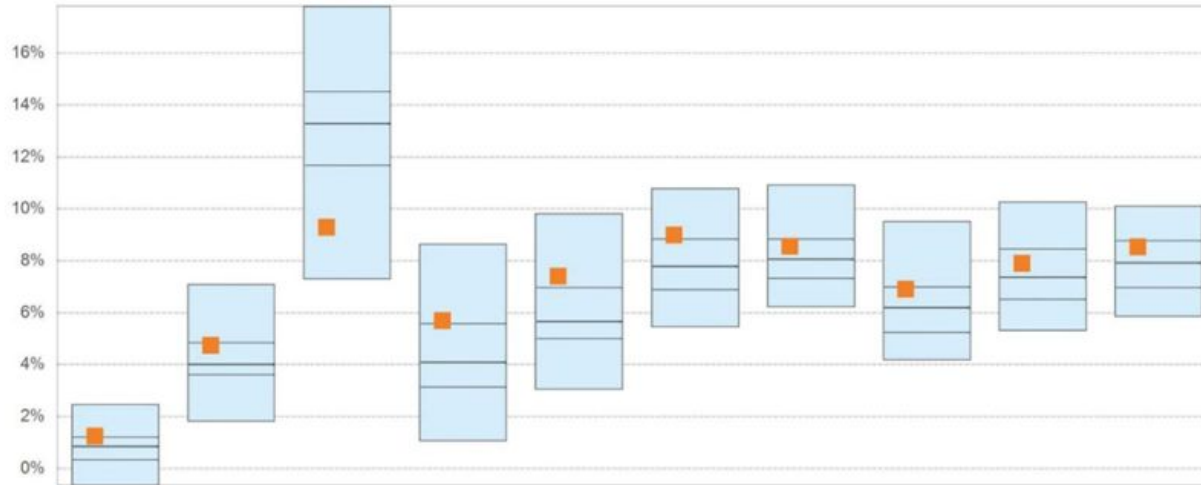
Source: University Lands, U.S. Energy Information Administration (EIA), Bloomberg, Futures Prices as of 1/17/20

Performance Comparison

Cumulative Periods Ending September 30, 2019



Total Returns of Master Trusts – Foundation & Endowment



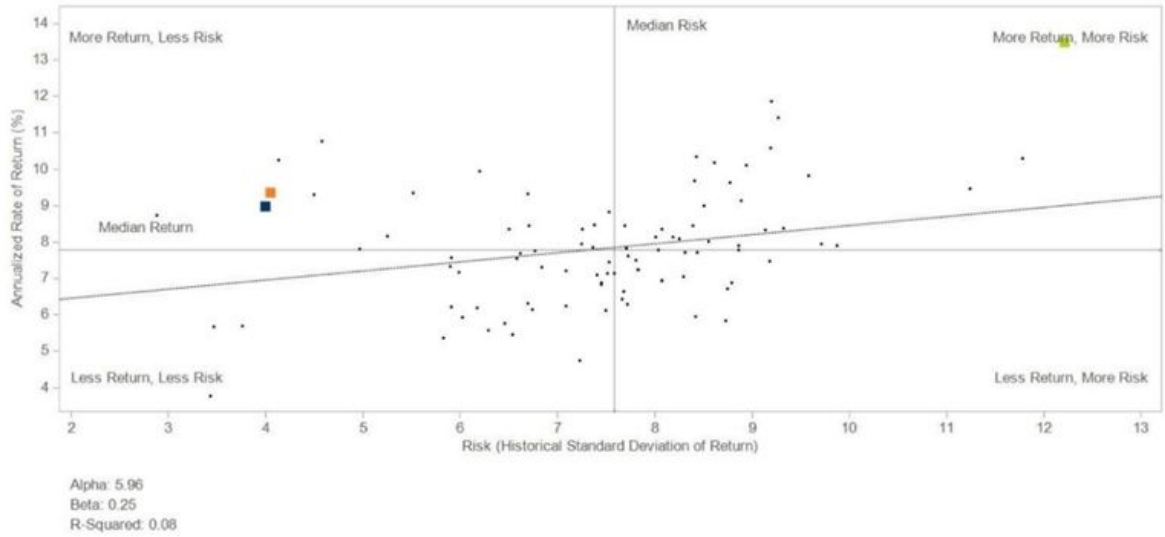
Percentile Rankings	1 Qtr	2 Qtrs	3 Qtrs	1 Year	2 Years	3 Years	4 Years	5 Years	7 Years	10 Years
5th	2.45	7.09	17.79	8.64	9.80	10.77	10.91	9.51	10.27	10.11
25th	1.21	4.84	14.51	5.57	6.97	8.83	8.84	6.98	8.45	8.78
50th	0.84	4.00	13.29	4.08	5.66	7.79	8.05	6.19	7.37	7.91
75th	0.34	3.60	11.68	3.13	5.00	6.89	7.33	5.24	6.50	6.97
95th	-0.66	1.83	7.31	1.07	3.06	5.45	6.24	4.19	5.31	5.86
No. Of Obs	99	99	98	98	96	94	94	94	90	74
■ PUF TOTAL FUND	1.13 (32)	4.63 (30)	9.18 (88)	5.57 (25)	7.29 (20)	8.87 (23)	8.44 (36)	6.79 (30)	7.79 (38)	8.42 (37)

Risk / Return

Three Years Ending September 30, 2019



For past three years, PUF and GEF have generated more returns for less risk



3 Years Ending 9/30/19	Risk Value	Risk Rank	Return Value	Return Rank
GEF TOTAL FUND	4.09	95	9.25	20
PUF TOTAL FUND	4.04	93	8.87	23
S&P 500	12.25	1	13.39	1
Median	7.58		7.79	

Wilshire Trust Universe Comparison Service® (TUCS®)

UTIMCO Performance versus Peers

Five Years Ending September 30, 2019



	UTIMCO Performance	Percentile Rank
Venture Capital	17.2%	8 th
Private Real Estate Portfolios	15.4%	1 st
US Private Equity Portfolios	11.3%	35 th
Global Equity Portfolios	8.1%	32 nd
NonUS Equity Portfolios	7.8%	15 th
US Equity Portfolios	6.0%	87 th
Emerging Markets	5.8%	16 th
Hedge Fund Portfolios	4.1%	50 th
Private Natural Resources	4.3%	N/A
Global Fixed Income (Unhedged)	2.7%	40 th

Note: Peer universe is approximately 250 institutions.

Wilshire Trust Universe Comparison Service® (TUCS®)



Summary

1) Extended Economic Cycle

2) Unusual Investment Returns

- Assets of \$50 Billion, up \$33 Billion since 2009

3) Effective Execution

- Alpha Generation
- Risk Management

4) Interconnected with University Lands Office

- \$11 Billion expected over next decade

5) Future Will Be More Challenging

Appendix



Asset Allocation

As of December 31, 2019



		% of Fund	Over / (Under) vs. Policy Portfolio Targets
Public Equity	Public Equity	33.6%	3.9%
	Directional Hedge Funds	11.5%	-0.2%
	Total Private Equity	20.6%	-1.0%
	Total Global Equity	65.7%	2.7%
Stable Value	Investment Grade Fixed Income	8.1%	-0.5%
	Credit Related Fixed Income	0.1%	0.1%
	Cash	0.1%	-0.9%
	Stable Value Hedge Funds	8.5%	0.5%
	Total Stable Value	16.8%	(0.8%)
Real Return	Inflation Linked Bonds	0.4%	0.0%
	Gold	0.9%	-0.1%
	Natural Resources	6.4%	-1.2%
	Infrastructure	2.4%	0.1%
	Real Estate - Public	0.1%	0.1%
	Total Private Real Estate	7.3%	-0.8%
	Total Real Return	17.5%	-1.9%
Total Fund		<u>100.0%</u>	<u>0.0%</u>

S&P 500 Cumulative Return & Drivers of Return



S&P 500 Return Drivers, Feb 09 to Dec 19

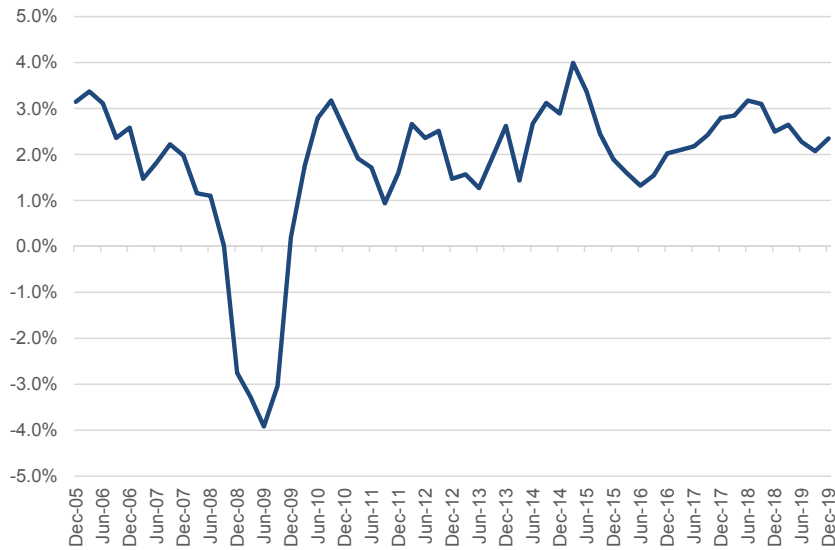
	Annualized	Cumulative	% of Total
Dividends	2%	58%	13%
Multiple Expansion	5%	126%	28%
Earnings Growth	10%	267%	59%
Total	17%	451%	100%

Source: UTIMCO, Bloomberg

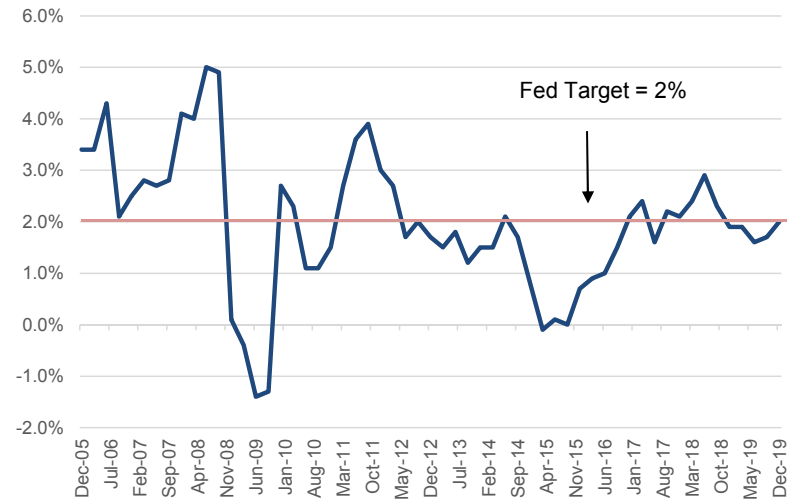


Then vs. Now: GDP and CPI

US Real GDP Rolling 1-Year



US CPI Rolling 1-Year



Real GDP 3-Year Average

	Dates	Real GDP
Crises	Jan 2006 - Dec 2008	0.6%
Following Crises	Jan 2009 - Dec 2011	1.4%
Today	Jan 2017 - Dec 2019 (est.)	2.5%

CPI 3-Year Average

	Dates	CPI
Crises	Jan 2006 - Dec 2008	2.2%
Following Crises	Jan 2009 - Dec 2011	2.4%
Today	Jan 2017 - Dec 2019 (est.)	2.0%

Source: Bloomberg

7. **U. T. System Board of Regents: The University of Texas/Texas A&M Investment Management Company (UTIMCO) Overview of Public Strategic Partnerships**

Mr. Britt Harris, President, Chief Executive Officer, and Chief Investment Officer and Mr. Rich Hall, The University of Texas/Texas A&M Investment Management Company (UTIMCO) Deputy Chief Investment Officer, will provide an overview of UTIMCO's Public Strategic Partnerships using the PowerPoint presentation on the following pages.



The University of Texas/Texas A&M Investment Management Company

Overview of Public Strategic Partnerships

Mr. Britt Harris

President, CEO and Chief Investment Officer

Mr. Rich Hall

Deputy Chief Investment Officer

U. T. System Board of Regents' Meeting

Finance and Planning Committee

February 2020



Overview of Strategic Partnerships

Goals of Strategic Partnerships

- **Investment Alpha:** achieve UTIMCO objectives and add value
- **Organizational Alpha:** training, resources, deliver full value of the firm
- **Relationship Alpha:** “positive peer pressure,” mutual commitment
- Strategic Partners will deliver the full value of their firms to UTIMCO

Public

- 2 partners with \$1 B each over 2-3 years, eventually reaching 5% of endowment assets
- Public multi-asset portfolios with value-added through strategy selection and tactical asset allocation
- Performance-based fees

Private

- Targeting 2-4 partners with \$1-2 B per partner
- Private equity, real estate, natural resources, credit
- Fee-advantaged investment in funds, access to co-investment



Traits of a Strategic Partner

1. Delivers Full Range of Valuable Investment Products and Services
2. Customize Products and Services to Specific UTIMCO Requirements
3. Operate Globally With a Sustainable Business Model
4. Produce Proprietary and Value-Added Investment Research
5. Share Significant Resources When Appropriate
6. Share UTIMCO's Long-Term Compensation Philosophy
7. Strategic Partner's Senior Management Makes a Full Commitment to the Partnership



Recommended Firms – Key Stats

BlackRock

J.P.Morgan
Asset Management

Total AUM (\$, B)	6,434	1,877
<i>By Product Line</i>		
Equities	3,480	406
Fixed Income	1,880	571
▶ Multi-Asset	492	254
Alternatives	139	138
Cash/Liquidity	443	508

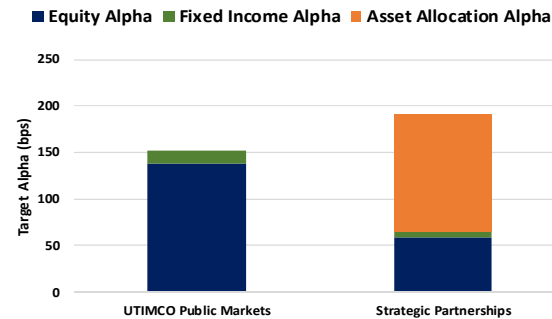
Source: BlackRock, JPM. As of 9/30/2019.



Value Added and Risk Reduction

- Strategic Partner alpha generation is both accretive and complementary to existing portfolio
- Expected performance driven largely by new alpha source: Tactical Asset Allocation

Complementary Alpha Structures



Diversification Impact Reduces Risk

Beginning Public Markets Tracking Error	234
+10% Allocation to lower risk SP	(-2)
+ Diversification Impact from low correlation	(-12)
Exp. Total Public Tracking Error w. SP	220

US	Non-US	Emerging	Total Equity	Fixed Income	Total Public Markets
0.30	0.45	0.00	0.40	0.28	0.44

- Diversification impact and lower targeted tracking error provide portfolio risk reduction
- At target size, expect SPs to be 10% of public portfolio

Source: UTIMCO. Target Alphas reflect UTIMCO and Strategic Partners expected excess returns on a go-forward basis.

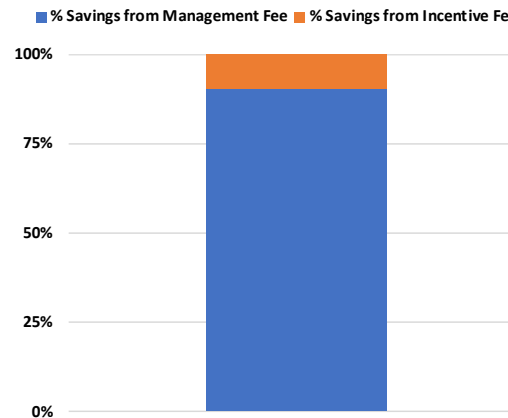


Fee Savings and Alignment

Offers significant savings at various levels of excess return

	<i>Net Alpha</i>					
	<i>0.5%</i>	<i>1.0%</i>	<i>1.5%</i>	<i>2.0%</i>	<i>2.5%</i>	<i>3.0%</i>
UTIMCO Public Markets Fee	0.86%	0.95%	1.03%	1.11%	1.20%	1.28%
Strategic Partnerships Fee	0.31%	0.38%	0.44%	0.51%	0.58%	0.65%
Fee Savings	0.56%	0.57%	0.59%	0.60%	0.62%	0.63%

Predominantly via a discounted management fee



UTIMCO maintains the right to terminate the relationship at any time.



Increased Resources and Knowledge Sharing

Insights and Research

- Monitoring SP Portfolios a source of market insight for all UTIMCO
- 2 proprietary research projects per partner per year
 - *market indicators, asset allocation, portfolio design, operational excellence*

Summits

- Semi-annual events held in NYC and Austin
- Collaborative review of current outlook, positioning, past performance, and special topics
- Introduce new perspectives into UTIMCO investment process

Technology

- Combined SP technology budget in excess of \$12 B
- BlackRock manages industry-leading risk system, Aladdin
- Resource for UTIMCO as we continue to modernize our IT systems and plan for the long-run

Excellence

- Access expanded network of 69 investment strategists, 902 research analysts, 1,691 Portfolio Managers across 30+ countries and 70+ global offices
- Large global platforms with dedicated resources across multiple dimensions of potential business and investment resources



Summary

Criteria	Status	
Increase Returns	☑	<ul style="list-style-type: none"> • 190 bps target alpha, 0.88 target Information Ratio • Augments UTIMCO Public Markets Portfolio
Reduce Risk	☑	<ul style="list-style-type: none"> • Diversifies existing alpha sources • Reduces Public Markets risk by 15 bps
Reduce Fees	☑	<ul style="list-style-type: none"> • 0.60% total fee savings at target net alpha
Increased Resources	☑	<ul style="list-style-type: none"> • Insights and Research • Summits • Technology • Excellence
Sr. Management’s Full Commitment to the Partnership	☑	<ul style="list-style-type: none"> • Mary Erdoes, CEO, J.P. Morgan Asset & Wealth Management • Larry Fink, Chairman and CEO, Blackrock

Appendix





Funding Plan

(\$, Mill)

	Inflows	Combined SP AUM	AUM / Partner
Q1 2020	+600	600	300
Q2 2020	+250	850	425
Q3 2020	+166	1,016	508
Q4 2020	+166	1,182	591
Q1 2021	+166	1,348	674
Q2 2021	+166	1,514	757
Q3 2021	+166	1,680	840
Q4 2021	+166	1,846	923
Q1 2022	+154	2,000	1,000