

As of August 31, 2010

# THE UNIVERSITY OF TEXAS SYSTEM

## Office of Finance - Debt Overview



## Office of Finance

- In addition to debt management, the Office of Finance is responsible for the following functions:
  - investment oversight
  - technology commercialization
  - capital project review
  - cash management (System Administration only)
  - miscellaneous financial services
  
- The Office of Finance issues debt on a consolidated basis for all System institutions. As of August 31, 2010, total debt outstanding is \$6.77 billion in two programs:
  - Revenue Financing System (RFS) debt - \$5.03 billion\*
  - Permanent University Fund (PUF) debt - \$1.74 billion



\* Includes \$1.08 billion of tuition revenue bonds

## U. T. System Debt Programs

- The U. T. System can issue debt under three programs:
  - Revenue Financing System (“RFS”)
  - Permanent University Fund (“PUF”)
  - Higher Education Assistance Fund (“HEAF”)
- Tuition Revenue Bonds (“TRBs”) are issued under the RFS program, but are secured by the same legal pledge.
- All debt is issued in the name of the Board of Regents and is issued centrally on behalf of the U. T. System institutions through the Office of Finance.



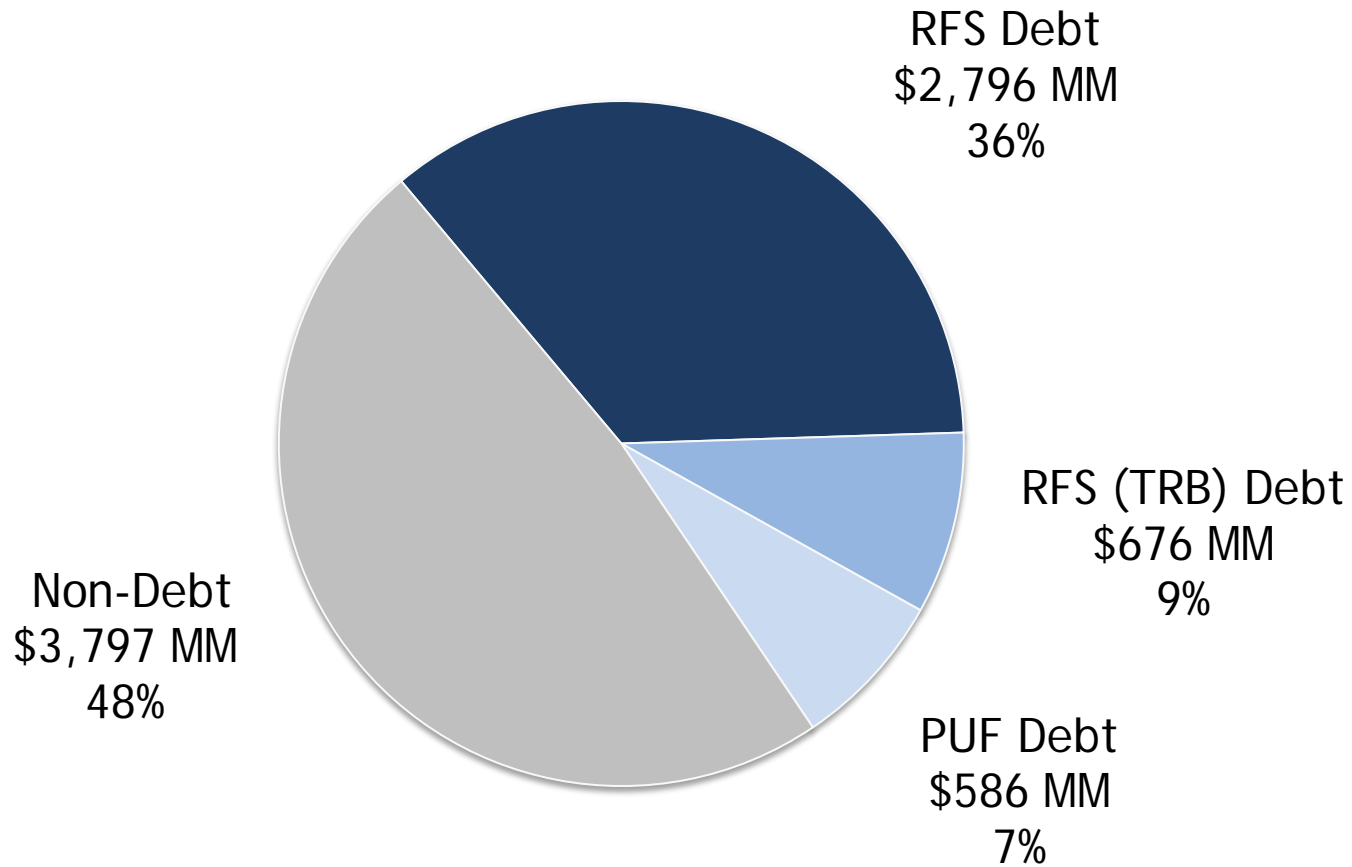
# Approval Process for Debt-Financed Projects

- The Board of Regents approves a project to be added to the CIP and for final approval.
- Projects must be approved by the Board of Regents if they are:
  - New capital projects and repair and renovation projects in excess of \$4 million, or
  - To be funded in whole or in part with debt, regardless of the amount.
- Texas Higher Education Coordinating Board - approves the capital project.
- Texas Bond Review Board - approves the bond issuance.
- Texas Attorney General - approves the legality of the bond issuance.



# Capital Improvement Program (CIP) by Source of Funds

\$7.85 Billion CIP as of August 31, 2010



## Revenue Financing System

- The Revenue Financing System (RFS) is a cost-effective debt program secured by a system-wide pledge of all legally available revenues for debt issued on behalf of all 15 institutions and System Administration.
- Long-term RFS debt is rated Aaa, AAA, and AAA by Moody's, Standard & Poor's, and Fitch, respectively, as of August 31, 2010.
- Short-term RFS debt is rated P-1/Aaa/VMIG1, AAA/A-1+, and AAA/F1+ by Moody's, Standard & Poor's, and Fitch, respectively, as of August 31, 2010.
- As of August 31, 2010, there is \$5.03 billion of RFS debt outstanding, including \$1.08 billion of TRB debt outstanding.



## Revenue Financing System (cont'd.)

- The Master Resolution establishing the Revenue Financing System requires that before any RFS debt is issued, the Board of Regents (Board) determines that:
  - The Board will have sufficient “Pledged Revenues” to meet all financial obligations relating to the Revenue Financing System, and;
  - The Members (i.e., institutions) on whose behalf the debt is issued possess the financial capacity to satisfy their direct obligations.



# Tuition Revenue Bonds

- Tuition revenue bonds (TRBs) are specifically authorized by the Legislature under Chapter 55 of the Education Code.
- TRBs are issued under the RFS program and are secured by the same pledge of all legally available revenues of the System; however, the expectation is that the State will reimburse TRB debt service with general revenue.
- Despite the name, TRB debt service is not paid from tuition and fees. In fact, an institution need not have tuition to receive TRB proceeds.



## Tuition Revenue Bonds (cont'd.)

- While not a legal obligation, the State has been reimbursing TRB debt service since 1971.
- TRBs are generally structured with level debt service over 20 years. The U. T. System bears the risk of repayment if the state does not honor its obligation to appropriate sufficient debt service each biennium.
- TRBs are a significant source of capital funding for core projects such as classrooms and research facilities; however, TRBs are dilutive to the System's overall credit ratios.



## Permanent University Fund Debt

- The Permanent University Fund (PUF) debt program is used to fund E&G projects at 13 of the 15 System institutions plus System Administration. PUF debt is secured by distributions from the PUF to the Available University Fund (AUF).
- Long-term PUF debt is currently rated Aaa, AAA, and AAA by Moody's, Standard & Poor's, and Fitch, respectively.
- Short-term PUF debt is currently rated P-1/Aaa/VMIG1, AAA/A-1+, and AAA/F1+ by Moody's, Standard & Poor's, and Fitch, respectively.
- As of August 31, 2010, there was \$1.74 billion of PUF debt outstanding.



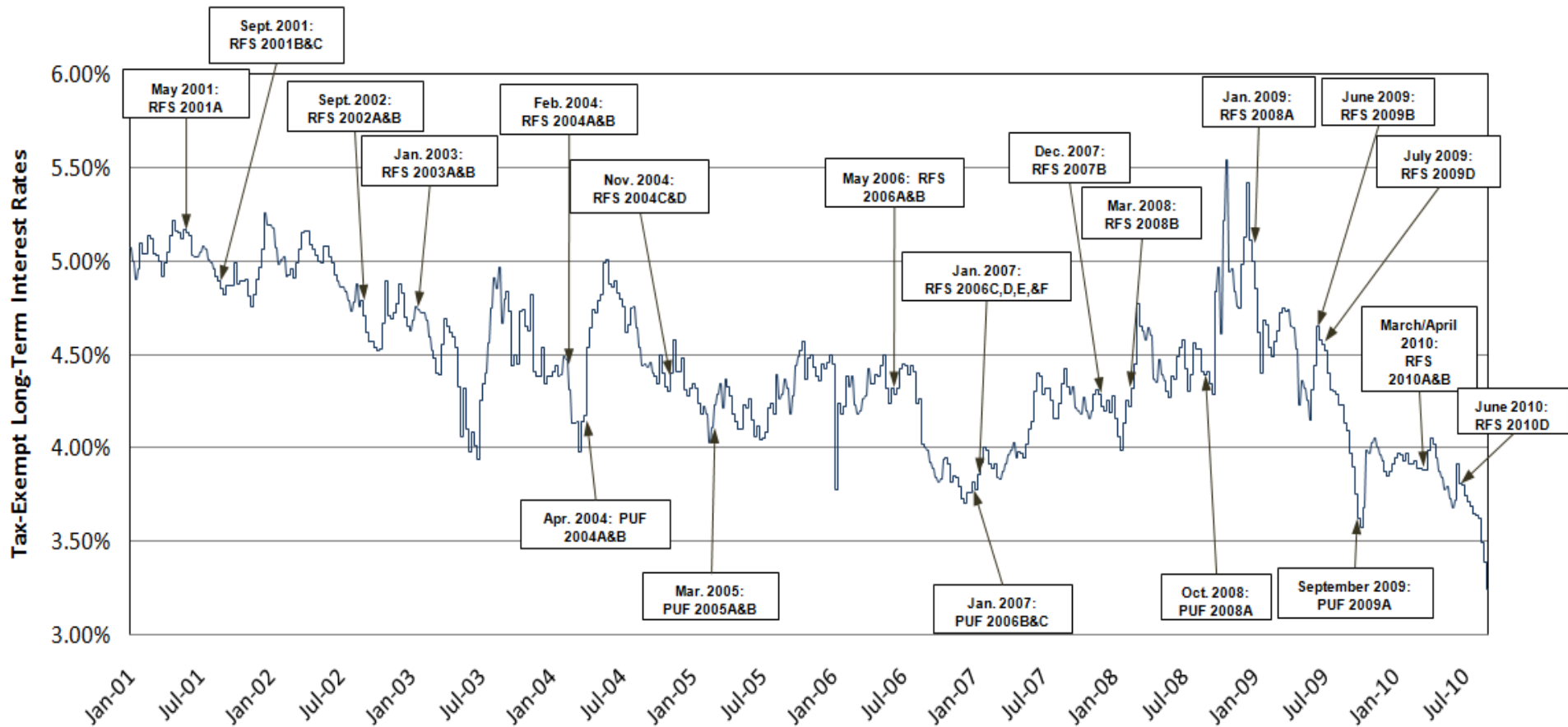
## Permanent University Fund Debt (cont'd.)

- The amount of PUF debt that can be issued is limited by the Texas Constitution to 20% of the book value of the PUF, or approximately \$1.98 billion as of 8/31/10.
- The amount of tax-exempt debt that can be issued by the Texas A&M University System is limited to 10% of the book value of the PUF.
- The Board's AUF Spending Policy guidelines also require that:
  - PUF debt service coverage must not be less than 1.5 times
  - Forecasted end-of-year AUF balances must not be less than \$30 million.



# Capitalizing on Low Long-Term Fixed Interest Rates

- All U.T. System debt currently outstanding has been issued since FY 2001



# Reducing Debt Issuance Costs

The U. T. System is a Low Cost Issuer in Texas

	FY 2010 The University of Texas System (\$/bond)	FY 2010 All Texas Bond Issuers (\$/bond)	FY 2009 All Texas Cities (\$/bond)	FY 2009 All Texas Counties (\$/bond)	FY 2009 All Texas School Districts (\$/bond)	FY 2009 All Texas Community/ Jr. Coll. (\$/bond)
Underwriter's Spread	\$4.85	\$5.03	\$8.77	\$9.14	\$8.17	\$7.16
Other Issuance Costs:						
Bond Counsel	0.41	0.38				
Financial Advisor	0.00	0.33				
Rating Agencies	0.25	0.42				
Printing	0.01	0.01				
Other	0.11	0.17				
Subtotal	0.78	1.31	13.93	11.39	11.45	6.41
<b>Total Cost per Bond</b>	<b>\$5.63</b>	<b>\$6.20</b>	<b>\$22.70</b>	<b>\$20.53</b>	<b>\$19.62</b>	<b>\$13.57</b>
Average Issue Size	\$371 million	\$204 million	\$20 million	\$26 million	\$27 million	\$49 million

Sources: Texas Bond Review Board FY2010 Annual Report and FY2009 Local Government Issuer Report.



# Debt Management Value-Added

- The Office of Finance has contributed \$284 million of savings to the U.T. System since FY 2001

(\$ millions)

	<b>Cumulative Savings</b>	
<b>Debt Refunding Savings</b>	\$	147.4
<b>Issuance Cost Savings*</b>		38.5
<b>Escrow Restructuring Savings</b>		12.0
<b>Treasury Savings and Other</b>		92.1
<b>Total "Investment" in the Office of Finance since 2001</b>		(6.2)
<b>Office of Finance Value-Added</b>	\$	283.8

\*Long-term debt costs of issuance calculated in comparison to the average state issuer. Issuance savings related to equipment financing CP calculated in comparison to the Texas Public Finance Authority (TPFA) Master Lease Purchase Program (MLPP), which charges 50 bps for "Administrative Fee."

