

JANUARY 25, 2012

THE UNIVERSITY OF TEXAS SYSTEM

Recent Financial Information



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The University of Texas System

- The University of Texas System (“U. T. System”) is comprised of 15 institutions across the State of Texas with 9 academic institutions and 6 health-related institutions



Key Facts and Statistics

Overview

- U. T. System established in 1876 by the Texas Constitution
- More than 87,000 faculty and employees – one of the largest employers in the State of Texas
- Low reliance on appropriations from the State of Texas, endowment income, and tuition and fees

Enrollment

- Continued enrollment growth with preliminary Fall 2011 student enrollment reaching a record 215,109 reflecting a 1.8% increase compared to Fall 2010 enrollment of 211,213
- Confers more than 1/3 of the state's undergraduate degrees and almost 2/3 of all health-related degrees from public health institutions in Texas

Financial Strength

- \$45.9 billion of assets (FY2011) and \$13.2 billion in expenses (FY 2011) funded by well-diversified revenue stream
- Largest collection of endowment assets of any public institution with investment pool of \$26.7 billion as of August 31, 2011. Includes the Permanent University Fund (“PUF”), a public endowment that supports the U.T. System and the Texas A&M System.



Fiscal Year 2011 Accomplishments

Strong Financial Performance

- Solid operating performance despite challenging economic conditions
- Philanthropic support totaling \$856 million¹ across the System in FY 2011
- The System has \$26.7 billion of assets under management, all of which are managed by the University of Texas Investment Management Company (“UTIMCO”) as of August 31, 2011.

Health Institution Highlights

- U. T. M.D. Anderson Cancer Center continues to be one of the world’s most respected centers devoted to cancer patient care, research, education and prevention
- Continued progress on post-Hurricane Ike recovery at UTMB-Galveston with secured funding necessary to replace, restore, and renovate damaged facilities and effective management that has achieved a positive operating performance

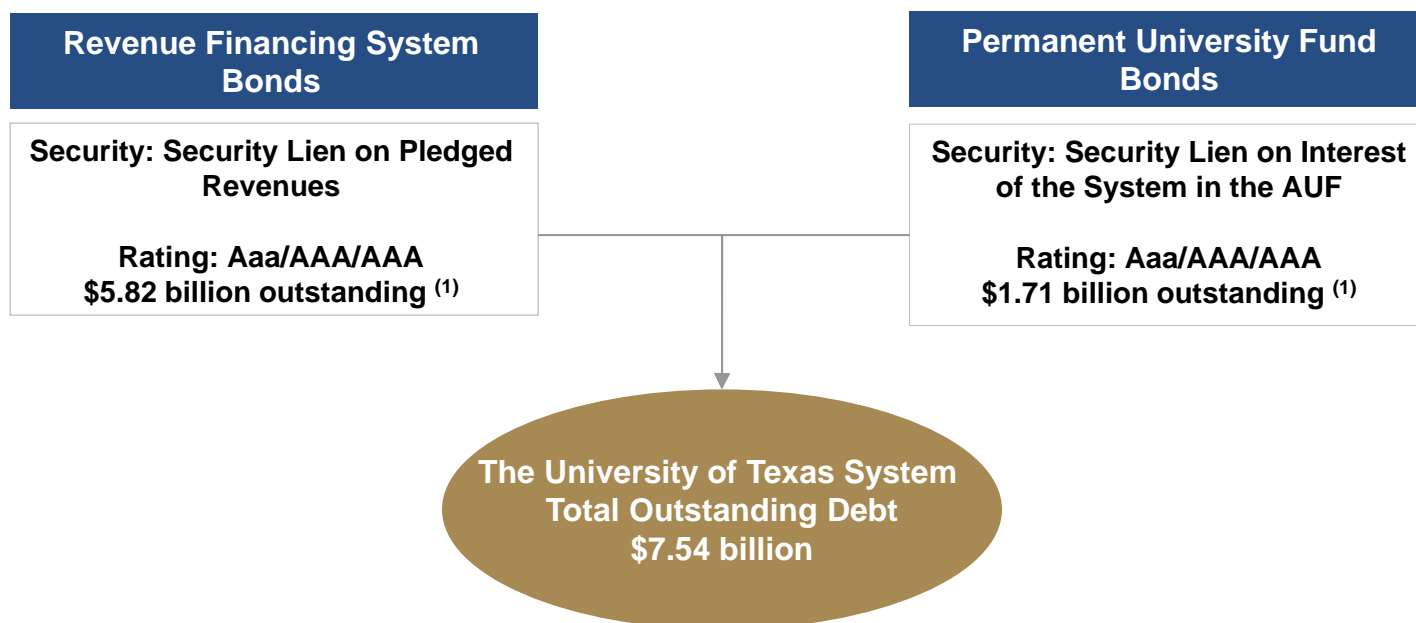
Academic Institution Highlights

- Continued enrollment growth across the System
- Focus on student tuition affordability, effective use of campus resources and improvement of graduation rates



Debt Programs

- All U. T. System debt is issued in the name of the Board of Regents and is issued centrally on behalf of U. T. System institutions through two primary financing programs:
 - Revenue Financing System (RFS)
 - Permanent University Fund (PUF)
- The Revenue Financing System debt program is secured by a system-wide pledge of all legally available revenues.
- The Permanent University Fund debt program is secured by distributions from the PUF to the Available University Fund (AUF).



(1) As of 1/25/2012



Revenue Financing System

- The University of Texas System Revenue Financing System was established by the Master Resolution of the Board for the purpose of providing a single, cost-effective financing structure for revenue-supported indebtedness of U. T. System institutions.
- Under the Master Resolution, the Board has, with certain exceptions, combined all of the revenues, funds and balances lawfully available to secure revenue-supported indebtedness into a system-wide pledge to secure the payment of Parity Debt.
- The Master Resolution provides that the obligation of the Board to pay or cause to be paid the amounts payable under the Master Resolution and any Supplement is absolute, irrevocable, complete and unconditional, and the amount, manner and time of payment shall not be modified in any way regardless of any contingency.
- The Master Resolution establishing the Revenue Financing System requires that before any RFS debt is issued, the Board of Regents make a determination 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.
- For the fiscal year ended August 31, 2011, Pledged Revenues totaled in excess of \$7.0 billion, excluding unrestricted net assets and certain restricted assets available to pay debt service related to particular projects.

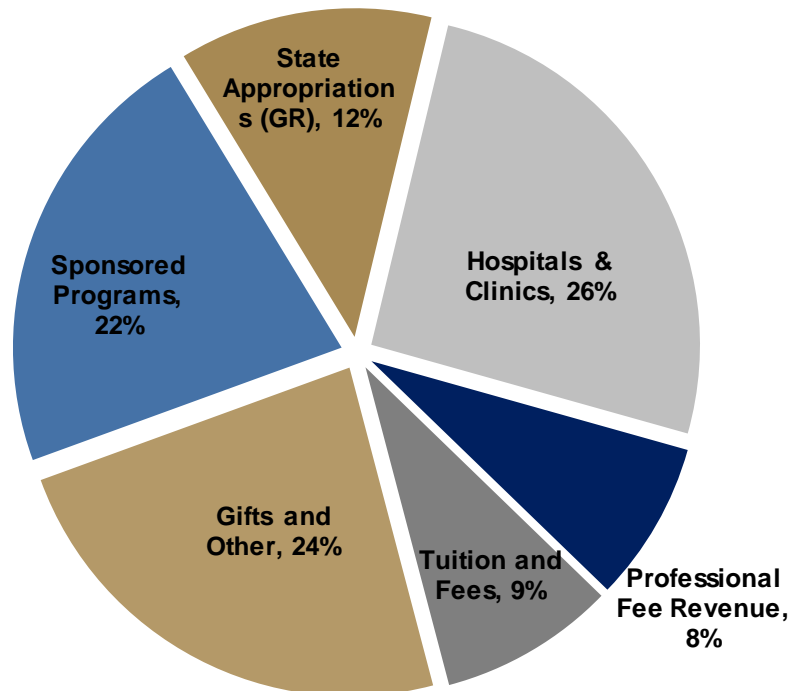


Significant Revenue Diversity

- The U. T. System budget is funded from a diversified revenue stream with low reliance on State appropriations, tuition, and investment income
 - State appropriations - 13% of revenues
 - Tuition and fees – 9% of revenues
 - Investment income – 15% of revenues

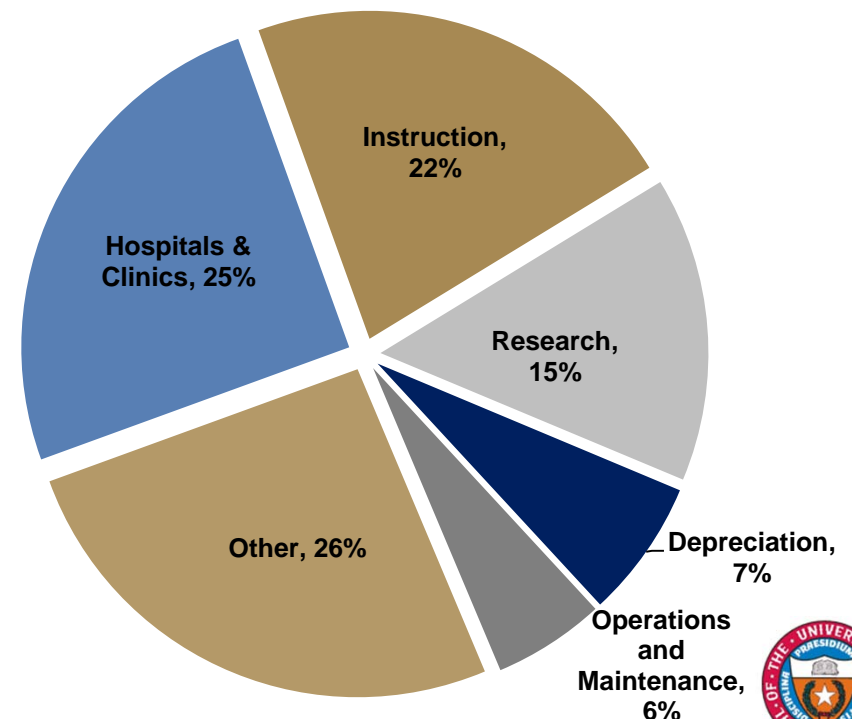
Breakdown of Revenues

Fiscal Year 2011 (\$14.9bn)



Breakdown of Expenses

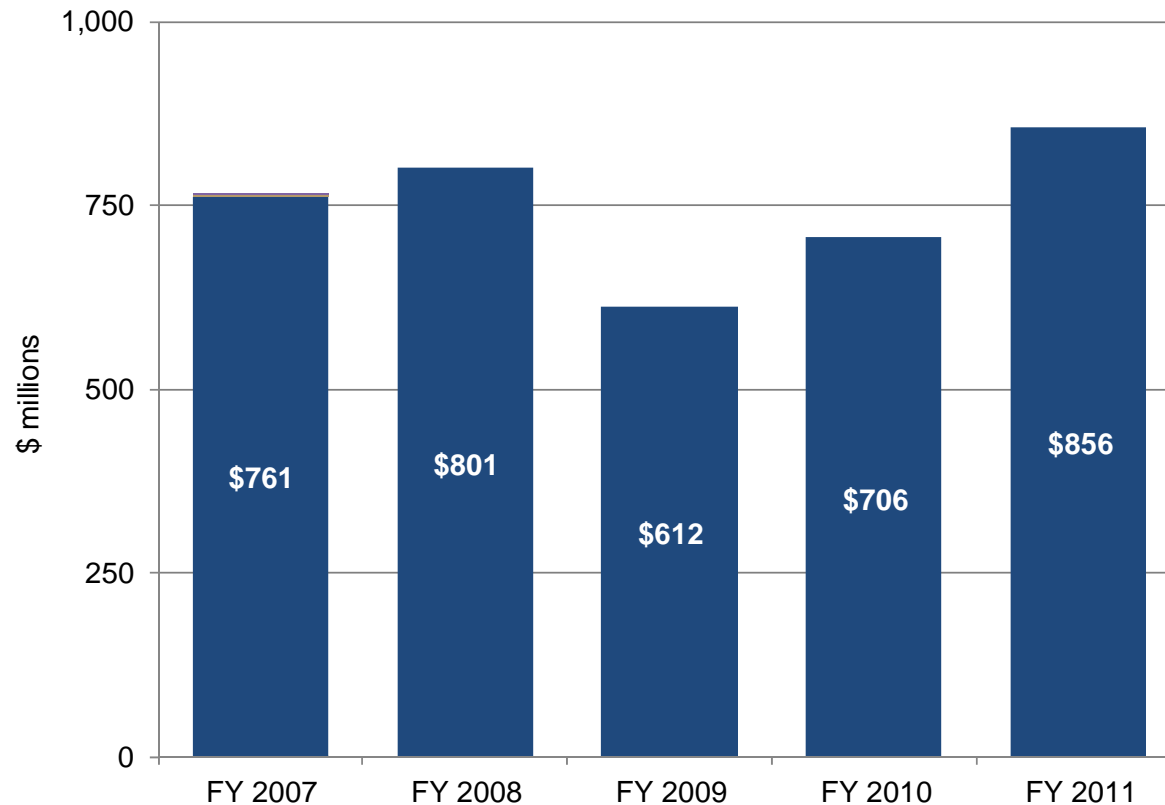
Fiscal Year 2011 (\$13.2bn)



Philanthropic Support

- U. T. System fundraising has averaged approximately \$747 million annually over the past five fiscal years derived from a diversified donor base

Historical Philanthropy



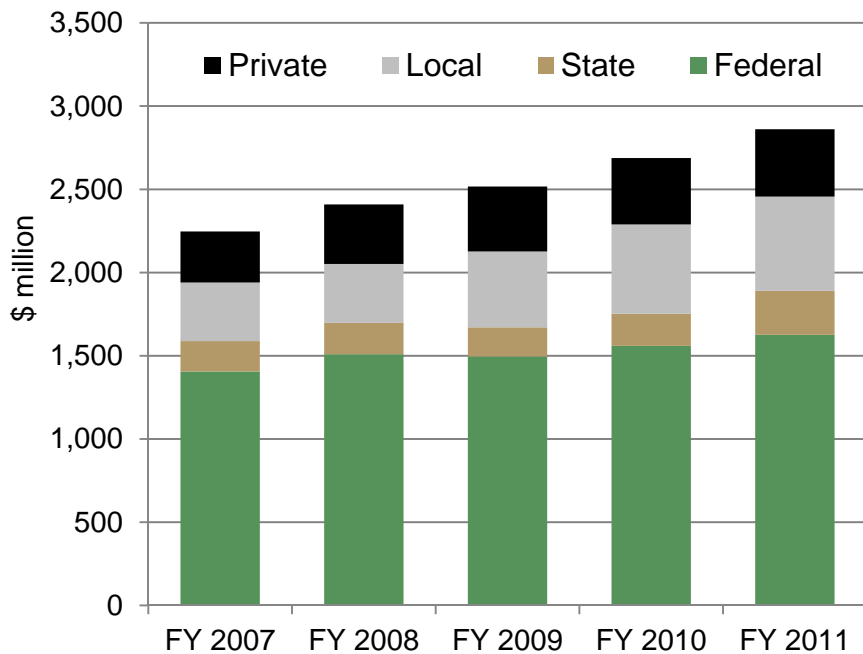
NOTE: Annual philanthropy numbers include gifts for current operations, gifts for capital purposes and deferred gifts at present value, as reported to the CAE



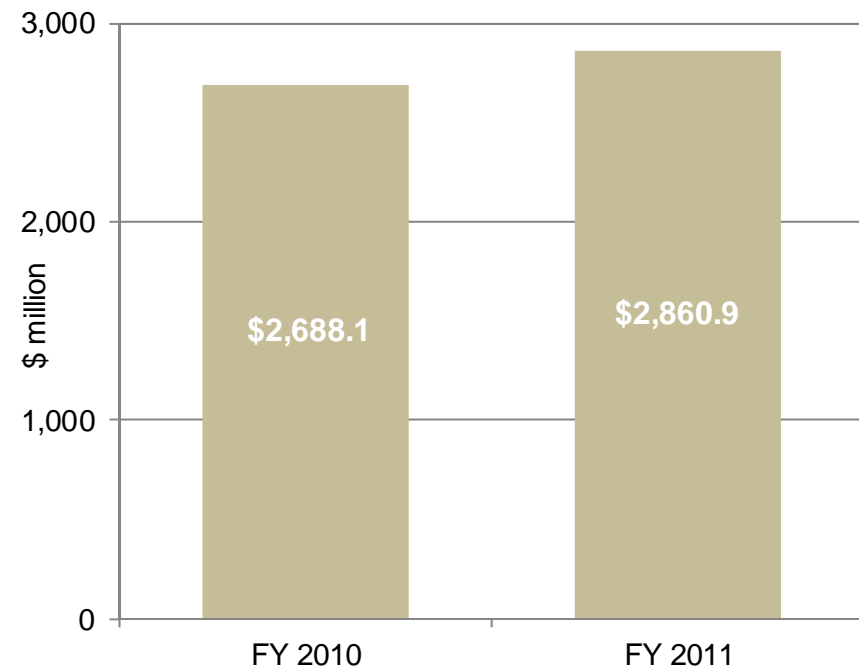
Continued Growth in Research

- Sponsored program revenue has increased almost 34% over the last five years and is up 6.4% compared to FY 2010
- U. T. System faculty includes six Nobel Prize Laureates, 38 Members of the National Academy of Sciences, 49 members of the American Academy of Nursing, and 38 members of the Institute of Medicine

Breakdown of Sponsored Programs Revenue



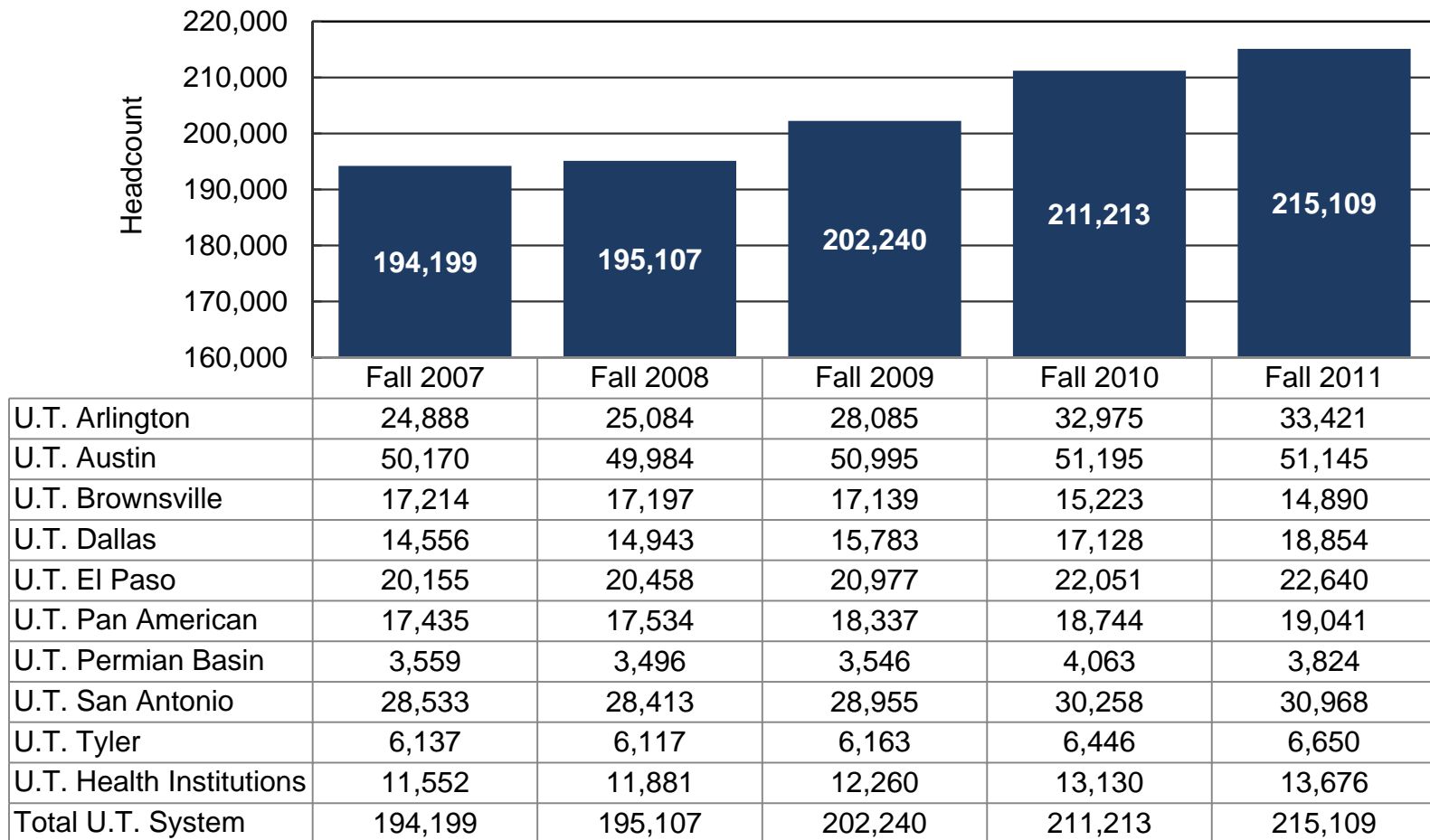
Sponsored Programs: Annual Comparison



Managed Enrollment Growth

- Enrollment continues to grow throughout U. T. System institutions, even with managed enrollment at U. T. Austin
- Enrollment has grown by an average 2.5% annually over the past 5 years; preliminary fall 2011 enrollment is estimated to increase by 1.8% over fall 2010

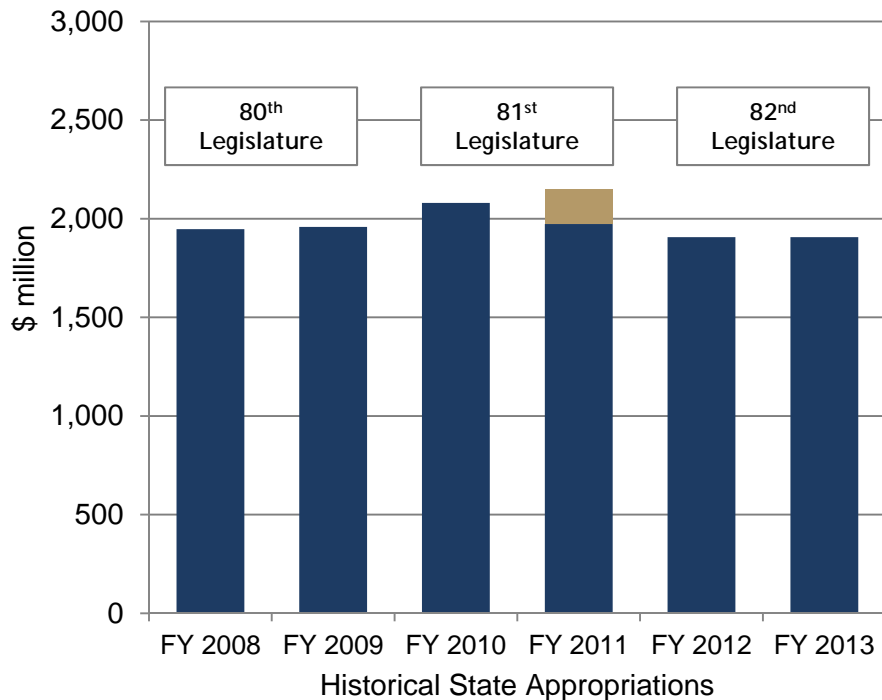
Fall Enrollment by Institution



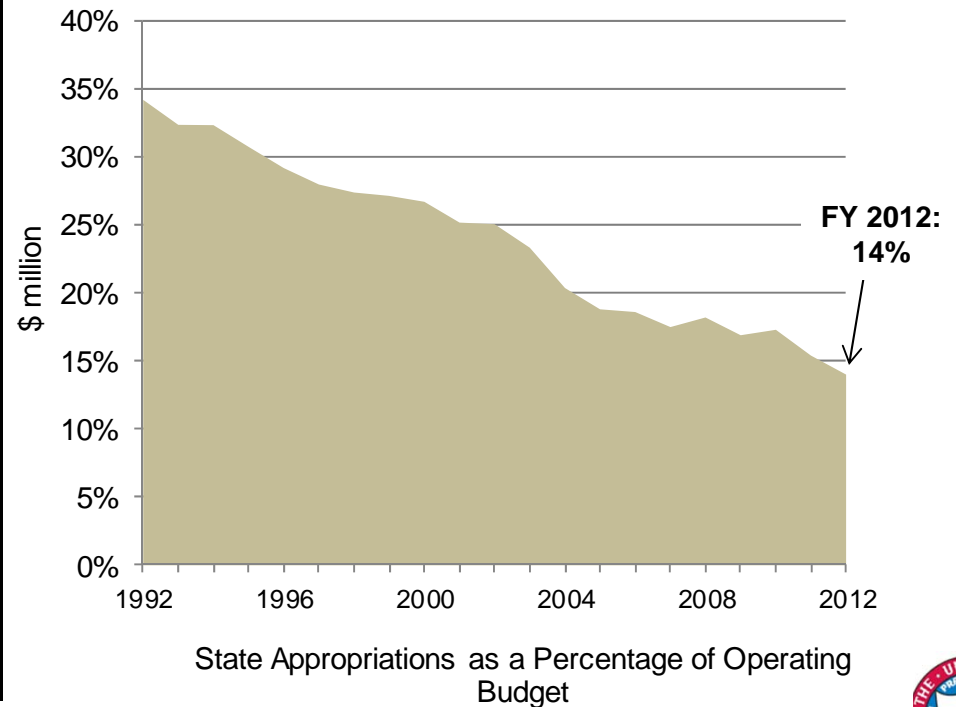
State Appropriations

- State appropriations for the FY 2012-13 biennium reflect a 15% reduction compared to FY 2010-11 biennium; however, since mandated reductions for the previous biennium were all recognized in FY 2011, state appropriations for FY 2012-13 biennium reflect only a modest 3.4% reduction compared to FY 2010-11 biennium
- Incorporating the budget reduction, biennial appropriations from the State of Texas (Aaa/AA+/AAA) to U. T. System have been relatively flat while U. T. System's reliance on appropriations (as a % of the Operating Budget) has declined to 14% for Fiscal Year 2012

Consistent State Funding, but . .



. . . Increasing Autonomy



Investment Responsibility

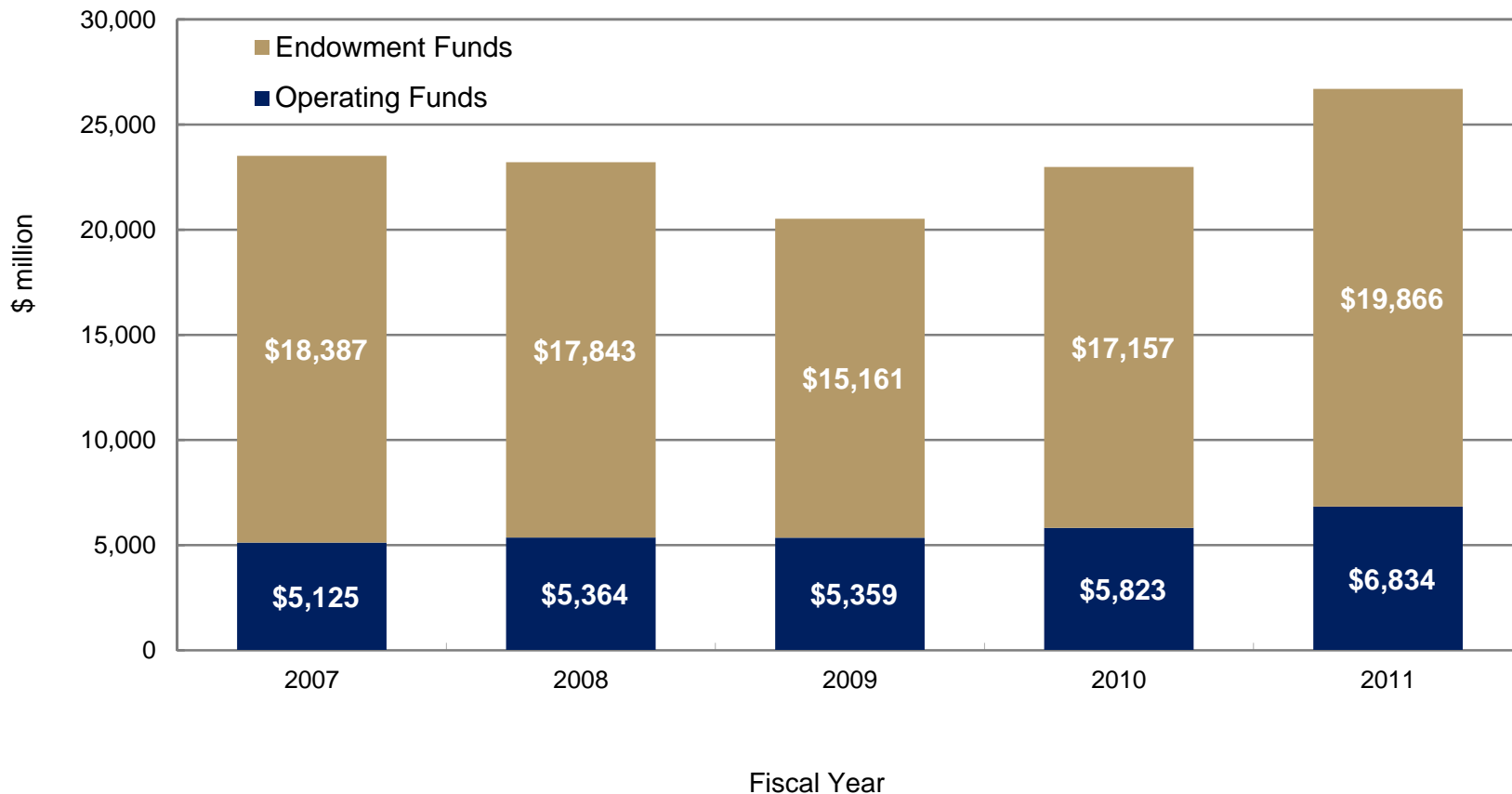
- The University of Texas Investment Management Company (“UTIMCO”) is responsible for the System’s investment management.
- UTIMCO is a 501(c)(3) investment corporation, the first investment corporation formed by a public university system to oversee investments.
- UTIMCO is governed by a nine-member board of directors consisting of six directors appointed by the U. T. Board of Regents, three of which must be members of the U.T. Board of Regents and the other three must have substantial investment expertise, the Chancellor of the U.T. System, and two directors appointed by the Texas A&M Board of Regents, at least one of which must have substantial investment expertise.
- Pursuant to an investment management services agreement, UTIMCO:
 - Recommends investment policy for the funds of the Board;
 - Recommends the neutral policy allocation and ranges, expected return and risk, and performance objectives by asset class, subject to Board approval; and
 - Monitors each fund’s performance against its objectives.



Investment Performance

- For the fiscal year ended August 31, 2011, the PUF and General Endowment Fund, both managed by UTIMCO, returned 16.2%
- Operating fund balances have increased by 33% over the last five years

Market Value of UTIMCO Assets under Management



RFS Debt Structure and Access to Liquidity

- The U. T. System has \$5.2 billion of long-term RFS debt outstanding as of January 25, 2012.
 - Over 82% (\$4.23 billion) is comprised of committed fixed-rate funding.

- The U. T. System maintains RFS taxable and tax-exempt commercial paper programs supported by self-liquidity in a maximum aggregate amount of \$1.25 billion.
 - As of January 25, 2012, there was \$616.6 million of RFS CP outstanding

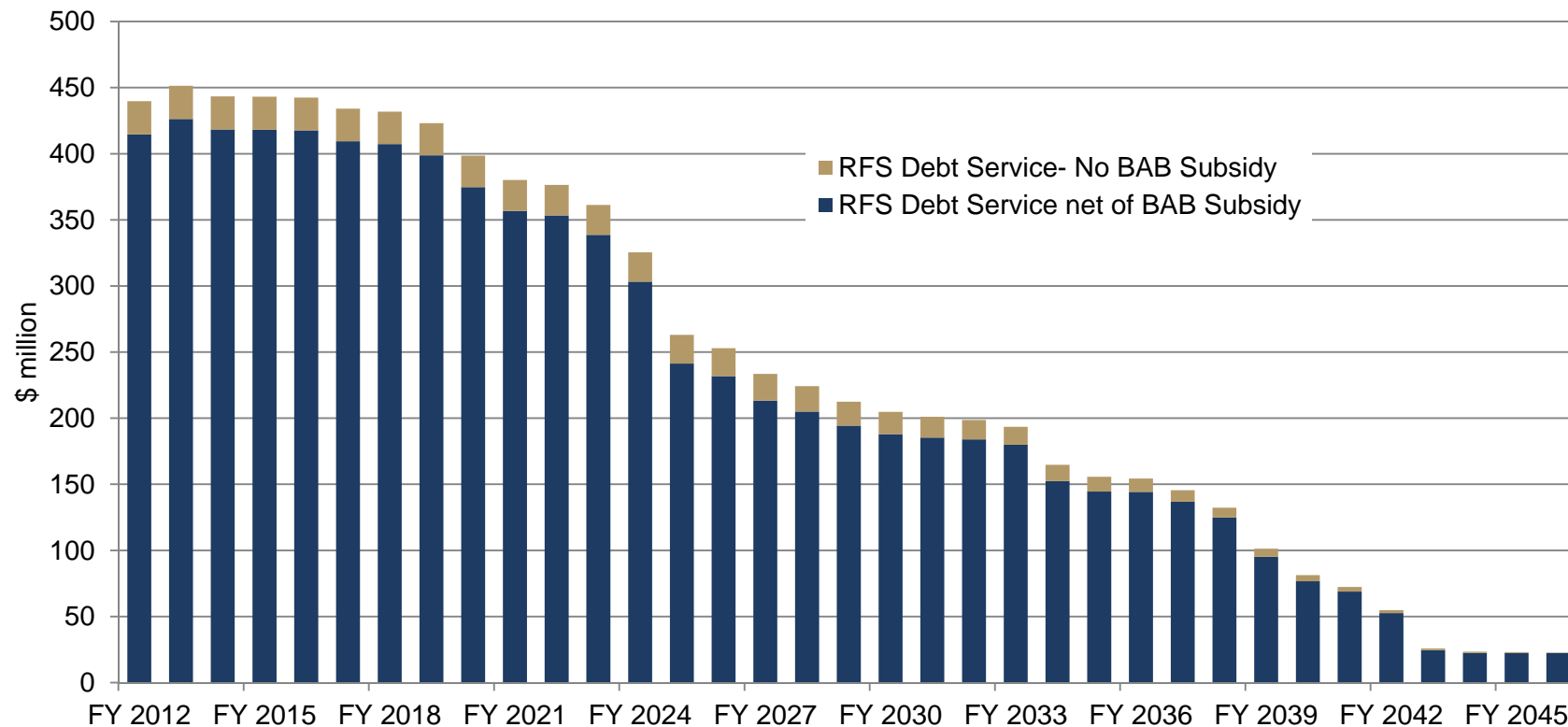
- The U. T. System's RFS debt is conservatively structured
 - Steadily declining debt service profile with no large bullet debt service payments
 - Limited roll-over risk in the RFS CP program due to daily maximums contained in dealer agreements
 - The System's interest rate swaps on RFS debt include provisions for one-way collateral posting from swap counterparties

- U. T. Board of Regents assets managed by UTIMCO provide liquidity for all of the Board's outstanding PUF and RFS variable rate bonds and commercial paper.



RFS Debt Service Profile

- As of January 25, 2012, there is \$5.2 billion in long-term RFS debt outstanding
- In addition, the System maintains RFS tax-exempt and taxable commercial paper programs supported by self-liquidity (\$1.25 billion maximum authorized amount). As of January 25, 2012, the amounts outstanding under these programs were \$575.9 million and \$40.7 million, respectively.



NOTE: Includes debt service on all outstanding Parity Debt outstanding as of January 25, 2012; however, excludes debt service on outstanding commercial paper notes. Expected annual debt service requirements on the Series 2001A bonds, Series 2007B bonds, and Series 2008B bonds have been computed based on the fixed-payer rates achieved as a result of the associated swap agreements. Expected annual debt service requirements on the Series 2009B, the Series 2010D, and the Series 2010C bonds have been calculated both inclusive and exclusive of the cash subsidy payments anticipated to be received by the Board from the United States Treasury as a result of the Board's designation of such bonds as "Build America Bonds."



Executive Summary and Credit Highlights

- Credit ratings: Highest ratings of Aaa, AAA, and AAA from Moody's , S&P, and Fitch, respectively, supported by substantial real and financial assets and market-leading position in public higher education
- Balance sheet: Largest collection of endowment assets of any public institution with investment pool of \$26.7 billion as of August 31, 2011
- Diversified revenue stream with low reliance on endowment income and tuition
- Leading educational and research enterprise with extensive financial resources
- Tremendous fund-raising ability with average annual giving in excess of \$747 million annually over the last 5 years
- Affordable tuition and fee levels compared to peer institutions
- Conservative debt structure: U. T. System has a declining debt service profile and no large bullet maturities



Key Contacts for Q&A

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