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FOR  
FINANCE AND PLANNING COMMITTEE**

**Committee Meeting:** 11/13/2019

**Board Meeting:** 11/14/2019  
Austin, Texas

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

	<b>Committee Meeting</b>	<b>Board Meeting</b>	<b>Page</b>
<b>Convene</b>	<i>10:30 a.m. Chairman Hicks</i>		
1. <b>U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration</b>	<i>10:30 a.m. <b>Discussion</b></i>	<b>Action</b>	<b>53</b>
2. <b>U. T. System: Financial Status Presentation</b>	<i>10:35 a.m. <b>Report/Discussion</b> Dr. Kelley</i>	Not on Agenda	<b>54</b>
3. <b>U. T. System Board of Regents: Update on University Lands</b>	<i>10:50 a.m. <b>Report/Discussion</b> Mr. Houser</i>	Not on Agenda	<b>67</b>
<b>Adjourn</b>	<i>11:00 a.m.</i>		

1. **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 - 8](#).

**2. U. T. System: Financial Status Presentation**

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. The report represents the consolidated and individual operating detail of the U. T. institutions.

# U. T. System Administration

*Budget Historical Analysis*

*and*

*Fiscal Year-to-Date Actuals*

Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents' Meeting

Finance and Planning Committee

November 2019

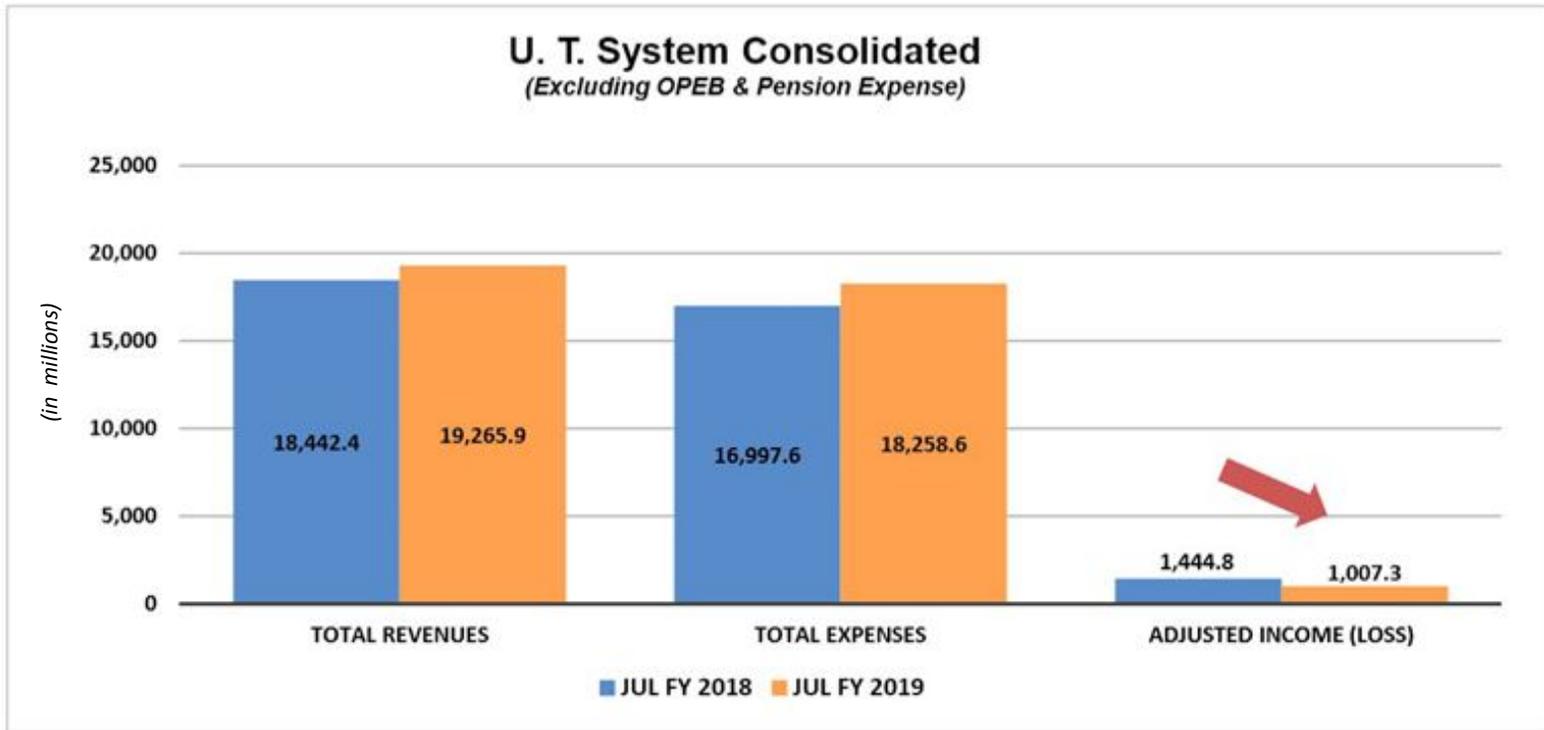


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# U. T. System Consolidated Landscape

For the Period Ending July 31, 2019

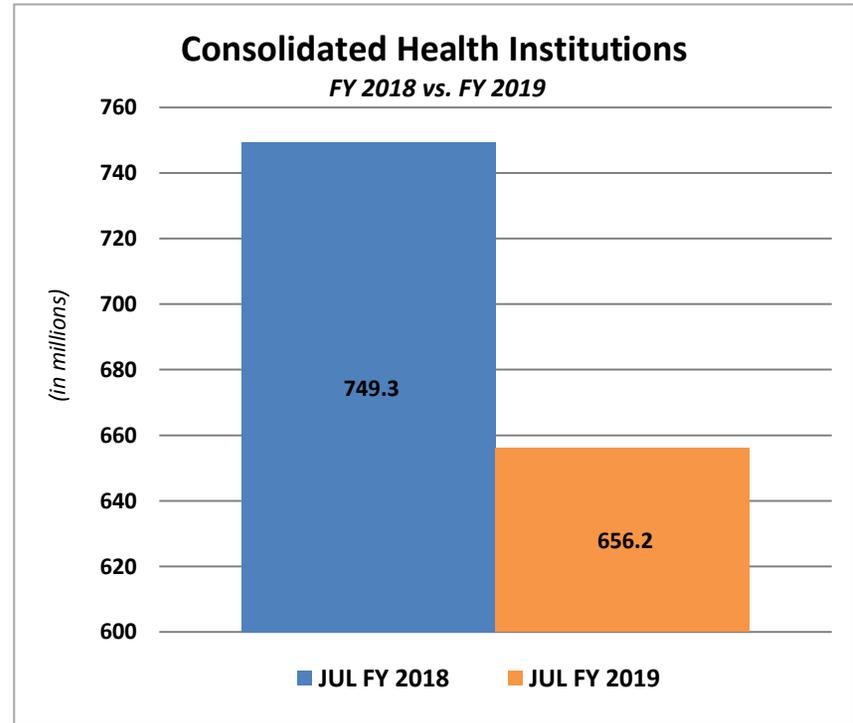
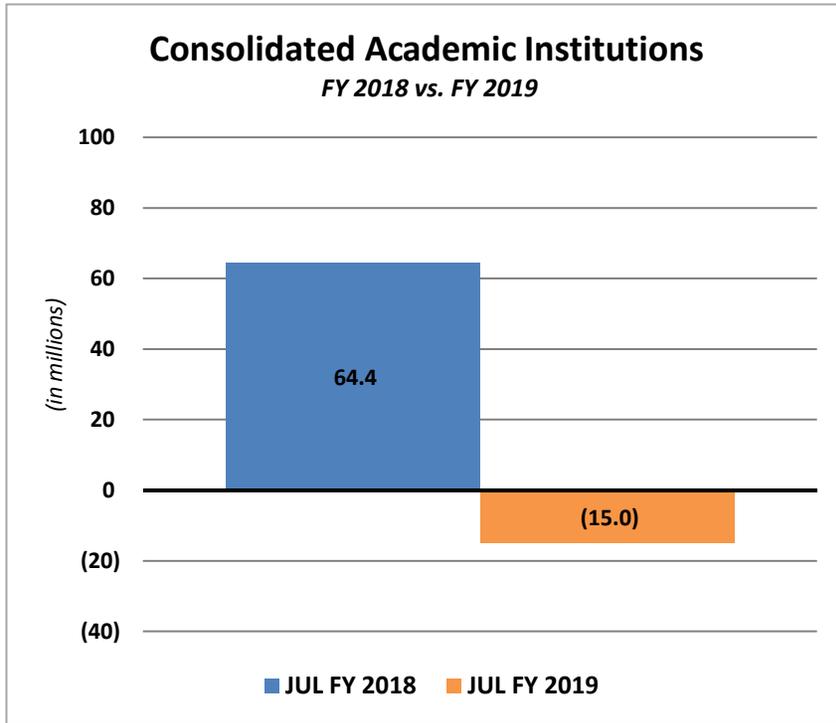


Source: July 2019 Monthly Financial Report

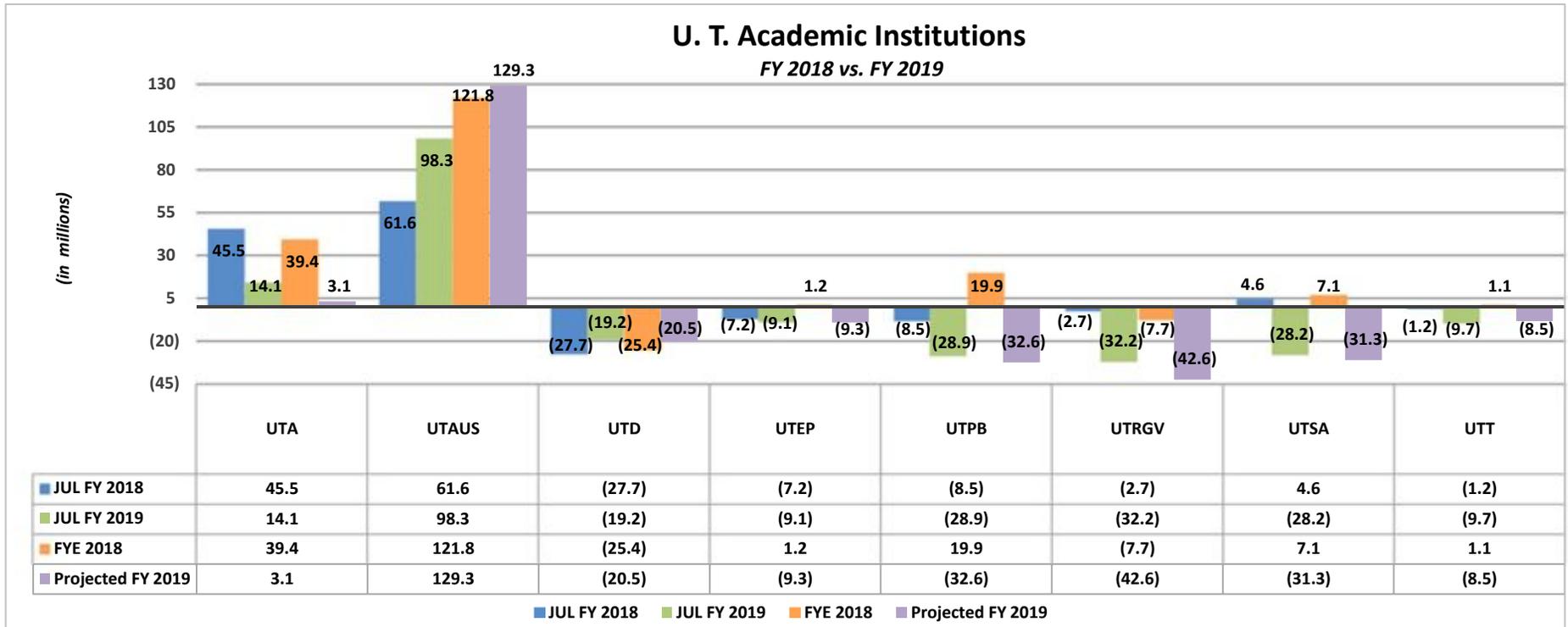


# Consolidated Adjusted Income (Loss) Comparison

For the Period Ending July 31, 2019



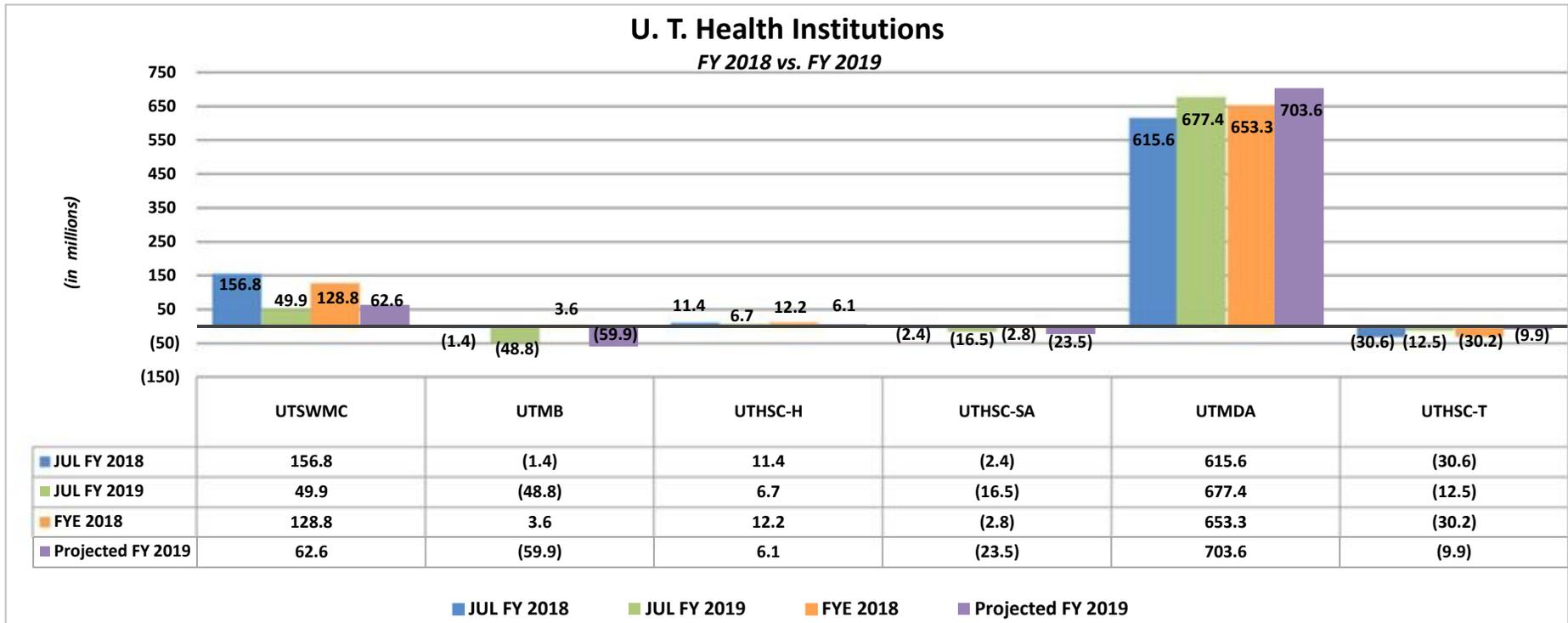
## Academic Adjusted Income (Loss) Comparison For the Period Ending July 31, 2019



Source: July 2019 Monthly Financial Report



## Health Adjusted Income (Loss) Comparison For the Period Ending July 31, 2019



Source: July 2019 Monthly Financial Report



# Systemwide Operations Financial Summary

	FY 2019 Budget	FTEs	FYTD Actual (August 2019)	% of Budget
U. T. System Administration (AUF)	\$ 57,678,597	264.8	\$ 50,500,183	88%
Direct Campus Support (AUF)*	42,557,676	114.0	39,232,880	92%
Other Operations Funded with AUF Reserves	2,527,538	3.5	2,593,904	103%
Service Departments and Other Non-AUF**	<u>70,792,193</u>	<u>291.7</u>	<u>61,185,620</u>	<u>86%</u>
<b>Total – U. T. System Administration and Campus Support</b>	<b>\$ 173,556,004</b>	<b>674.0</b>	<b>\$ 153,512,587</b>	<b>88%</b>

\* Direct Campus Support includes \$1.1 million in FY 2019 funded from AUF reserves.

\*\* The Board of Regents has approved the budget and FTEs related to University Lands. 2/3 of the overall University Lands budget and August 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.



## U. T. System Administration (AUF)

	FY 2019 Budget	FTEs	FYTD Actual (August 2019)	% of Budget
Board of Regents	\$ 2,222,456	10.0	\$ 2,184,207	98%
System Audit	2,515,075	13.3	2,472,035	98%
Chancellor	1,386,436	5.9	956,296	69%
Police	2,958,834	15.0	3,071,464	104%
Information Security	2,163,100	12.0	1,831,676	85%
Compliance	1,098,415	5.3	929,495	85%
Human Resources	1,667,867	12.0	1,243,498	75%
Academic Affairs	8,809,355	41.3	7,999,663	91%
Health Affairs	3,114,460	12.0	2,547,874	82%
Business Affairs	12,711,998	70.2	11,985,296	94%
External Relations	3,172,191	20.1	2,761,642	87%
General Counsel	4,591,358	26.2	4,348,819	95%
Governmental Relations	1,558,254	10.5	1,459,930	94%



## U. T. System Administration (AUF)

	FY 2019 Budget	FTEs	FYTD Actual (August 2019)	% of Budget
Talent & Innovation (Tech Commercialization)*	\$ 1,892,992	6.0	\$ 1,454,348	77%
External Audit	1,933,408	-	1,846,737	96%
Center for Enhancing Philanthropy	755,092	3.0	230,679	31%
Organizational Effectiveness	405,297	2.0	279,592	69%
OTIS Assessment to AUF	2,276,102	-	2,288,345	101%
Merit/Staffing Adjustment	1,718,590	-	-	N/A
Contracted Professional Services	<u>727,317</u>	<u>-</u>	<u>608,587</u>	<u>84%</u>
<b>Total</b>	<b>\$ 57,678,597</b>	<b>264.8</b>	<b>\$ 50,500,183</b>	<b>88%</b>

\* Includes management of the Horizon Fund



## Direct Campus Support (AUF)

	FY 2019 Budget	FTEs	FYTD Actuals (August 2019)	% of Budget
Shared Information Services *	\$ 24,708,332	114.0	\$ 21,674,809	88%
Digital Library Services	8,267,034	–	8,267,034	100%
Campus Insurance and IT	<u>9,582,310</u>	<u>–</u>	<u>9,291,037</u>	<u>97%</u>
<b>Total **</b>	<b>\$ 42,557,676</b>	<b>114.0</b>	<b>\$ 39,232,880</b>	<b>92%</b>

\* Shared Information Services includes \$1.1 million in FY 2019 funded from AUF reserves.



## Other Operations (AUF Reserves)

	FY 2019 Budget	FTEs	FYTD Actuals (August 2019)	% of Budget
Buffalo Pointe	\$ 360,000	–	\$ 54,361	15%
QL Healthcare Enterprise Collaboration	662,400	–	653,198	99%
Public Health	309,375	0.5	729,201	236%
Other Quantum Leaps	<u>1,195,763</u>	<u>3.0</u>	<u>1,157,143</u>	<u>97%</u>
<b>Total</b>	<b>\$ 2,527,538</b>	<b>3.5</b>	<b>\$ 2,593,904</b>	<b>103%</b>



# System Administration and Service Departments (Non-AUF)

(Excluding Self-Insurance Funds)

	FY 2019 Budget	FTEs	FYTD Actuals (August 2019)	% of Budget
University Lands*	\$ 16,418,777	43.4	\$ 12,223,744	74%
OCP/OFPC/Facilities	17,985,834	79.3	14,213,437	79%
Employee Benefits	4,612,038	38.3	4,647,596	101%
Technology and Information Services	4,363,024	27.5	3,967,476	91%
Office of Risk Management	3,626,207	27.8	3,551,393	98%
External Relations	1,633,931	6.9	1,386,804	85%
Office of General Counsel	4,833,631	31.4	3,940,735	82%
TMSAS/JAMP	6,864,087	15.0	6,596,563	96%
External Audit	816,679	–	795,444	97%
Chancellor	1,977,200	1.0	1,093,357	55%
Systemwide Compliance	1,510,300	1.0	1,165,641	77%
Other**	<u>6,150,485</u>	<u>20.1</u>	<u>7,603,427</u>	<u>124%</u>
<b>Total</b>	<b>\$ 70,792,193</b>	<b>291.7</b>	<b>\$ 61,185,620</b>	<b>86%</b>

\* The budget and August YTD actuals shown represent 2/3 of the overall University Lands budget (the portion that is attributable to the University of Texas System support).

\*\* Other primarily includes the non-AUF costs of various System departments such as Finance, Information Security, Controller, etc. Excluded are self-insurance funds, federal Medicare Part D reimbursements, systemwide software which is centrally negotiated and reimbursed by campuses (e.g. licenses for Microsoft, Incommon, Oracle and Verisign), and the debt service on the U. T. System Building.



# Systemwide Operations Financial Summary

	FY 2019 Budget	FTEs	FYTD Actuals (August 2019)	% of Budget
<b>U. T. System Administrations and Direct Campus Support - Operations</b>	<b>\$ 173,556,004</b>	<b>674.0</b>	<b>\$ 153,512,587</b>	<b>88%</b>
Lone Star Stroke (GR appropriation)	1,645,390	–	1,645,390	100%
Systemwide Software Licenses*	18,937,053	–	20,460,479	108%
Medicare Part D Federal Support**	14,260,000	–	28,997,530	203%
UTSB Debt Interest	3,506,000	–	2,985,147	85%
PUF Debt Interest (All campuses)	125,650,000	–	109,137,659	87%
Depreciation***	<u>19,500,536</u>	<u>–</u>	<u>23,804,108</u>	<u>122%</u>
<b>U.T. Systemwide Operations****</b>	<b>\$ 357,054,983</b>	<b>674.0</b>	<b>\$ 340,542,899</b>	<b>95%</b>

\* Includes systemwide software licenses such as those for Microsoft, Incommon, Oracle and Verisign along with campus assessments supporting the UT Austin Digital Library.

\*\* Federal support to partially offset claims activity associated with offering retiree prescription drug coverage.

\*\*\* Depreciation budget is net of the capital outlay budget adjustment. Depreciation is added and capital deducted to better align budget with actual entity-wide financial performance.

\*\*\*\* Excludes budgeted self-insurance claims activity.

NOTE: The Board of Regents has approved the budget and FTEs related to University Lands. 2/3 of the overall University Lands budget and August 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.



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3. **U. T. System Board of Regents: Update on University Lands**

REPORT

Mr. Mark Houser, Chief Executive Officer - University Lands, will report on matters related to University Lands using the PowerPoint presentation set forth on the following pages.



# University Lands (UL) Update

Mr. Mark Houser, Chief Executive Officer – University Lands

U. T. System Board of Regents' Meeting  
Finance and Planning Committee  
November 2019



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# UL Organizational Structure



# UL Economic Development Opportunities

Strong Commercial Focus

<p><b>Oil and Gas Resources</b></p> 	<p><b>Water Resources &amp; Logistics</b></p> 	<p><b>Solar and Wind</b></p> 	<p><b>Other Surface Activities</b></p> 
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Excellent Environmental Stewardship



# UL FY2019 Year-End Results

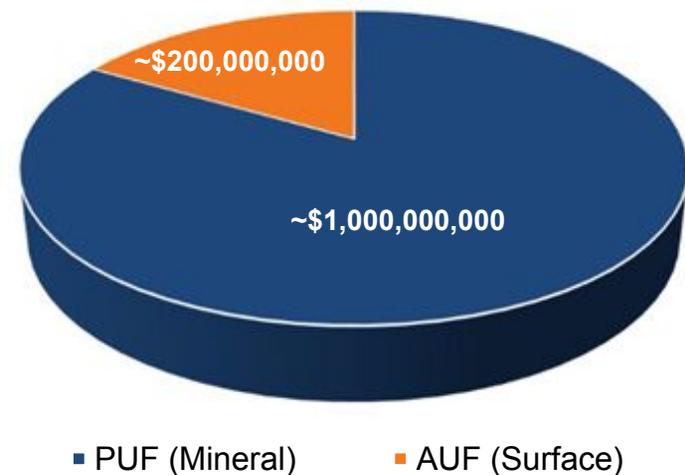
- **REVENUE:** Revenue of \$1.135 billion exceeded FY2018 revenue and was the highest revenue year since FY2014
  - Record surface (AUF) revenue of \$111MM – **up 26% year over year**
  - Record oil royalty of \$825MM
- **EXPENSES:** Expenses 10% below budget at \$22.0 million due to delays in timing of projects
  - \$0.93/barrels of oil equivalent (BOE) unit costs and 1.93% of revenue
- **PRODUCTION:** Record production year with rates peaking at a combined volume of ~300,000 BOE per day – **up 13% year over year**
- **ASSET VALUE:** ‘Proved Reserves’ down 3% year-over-year due to lower long-term pricing and area-specific development delays; Value per acre of Proved Reserves up 21% year-over-year on price neutral basis
- **KPIs & ORGANIZATIONAL PERFORMANCE TARGETS:** Met 158% of pre-determined KPIs
  - PUF Revenue; AUF Revenue; Production; Expenses per Barrel of Production; and Proved Reserves Growth
- **VALUE-ADD OF FY2019 INITIATIVES:** New FY2019 initiatives/agreements valued at \$1.2 billion



# Key FY2019 Initiatives: Total Future Value-Add

- ~\$1 billion in PUF (mineral development) initiatives
  - Nine (9) significant oil and gas development negotiations completed with operators spanning all three of UL’s key oil and gas basins
  - Increased footage commitment of >1.4 million horizontal feet (~155 wells)
- ~\$200 million in AUF (surface) initiatives
  - Majority of AUF initiatives also have a ‘stewardship’ focus (water preservation, renewable energy, transportation solutions)
  - Generated ~\$26 million in FY19 current year revenue
- Proved Reserves Value Per Acre increased by 21% year-over-year from \$3,876 to \$4,895 (price neutral)

**Projected Value-Add from Initiatives Executed in FY2019\***

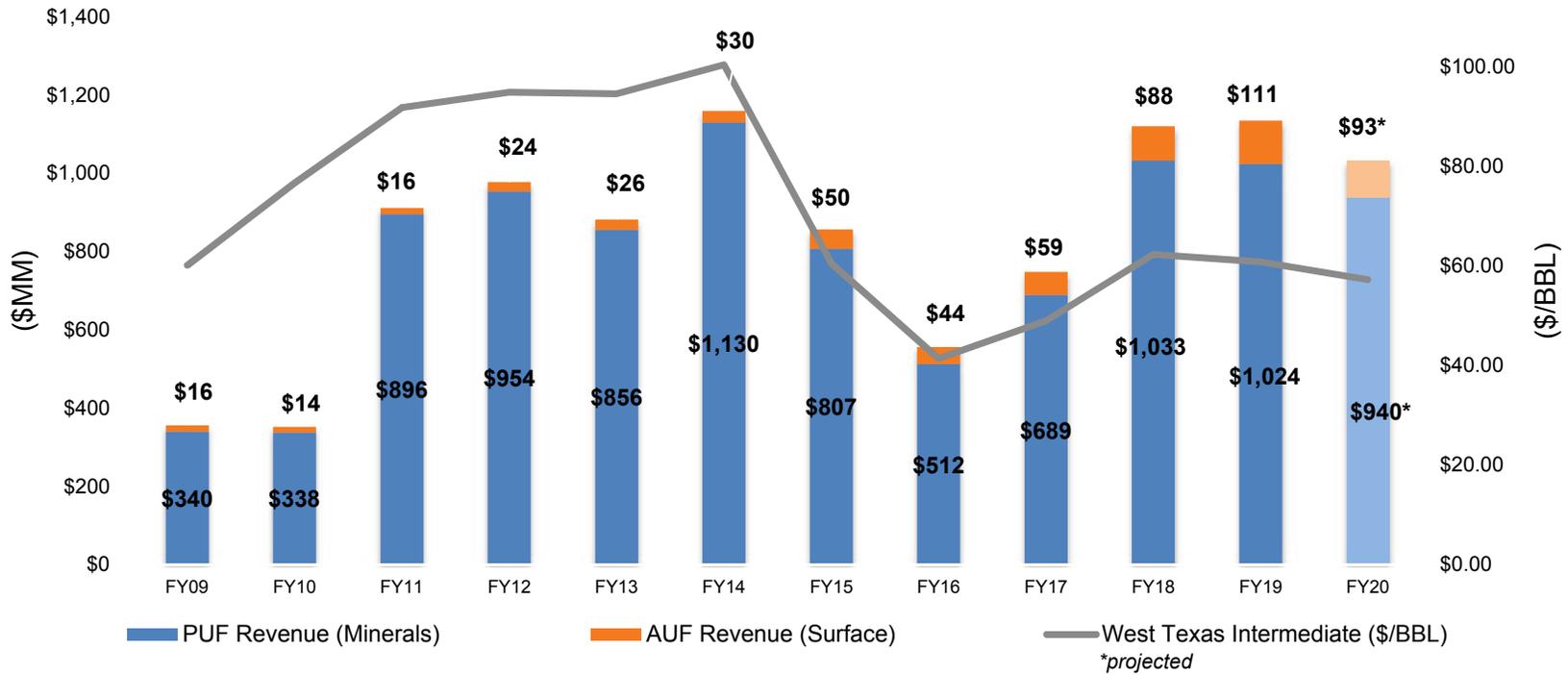


*\*Numbers are PV6; Projects/developments have to come to fruition for value to be realized*

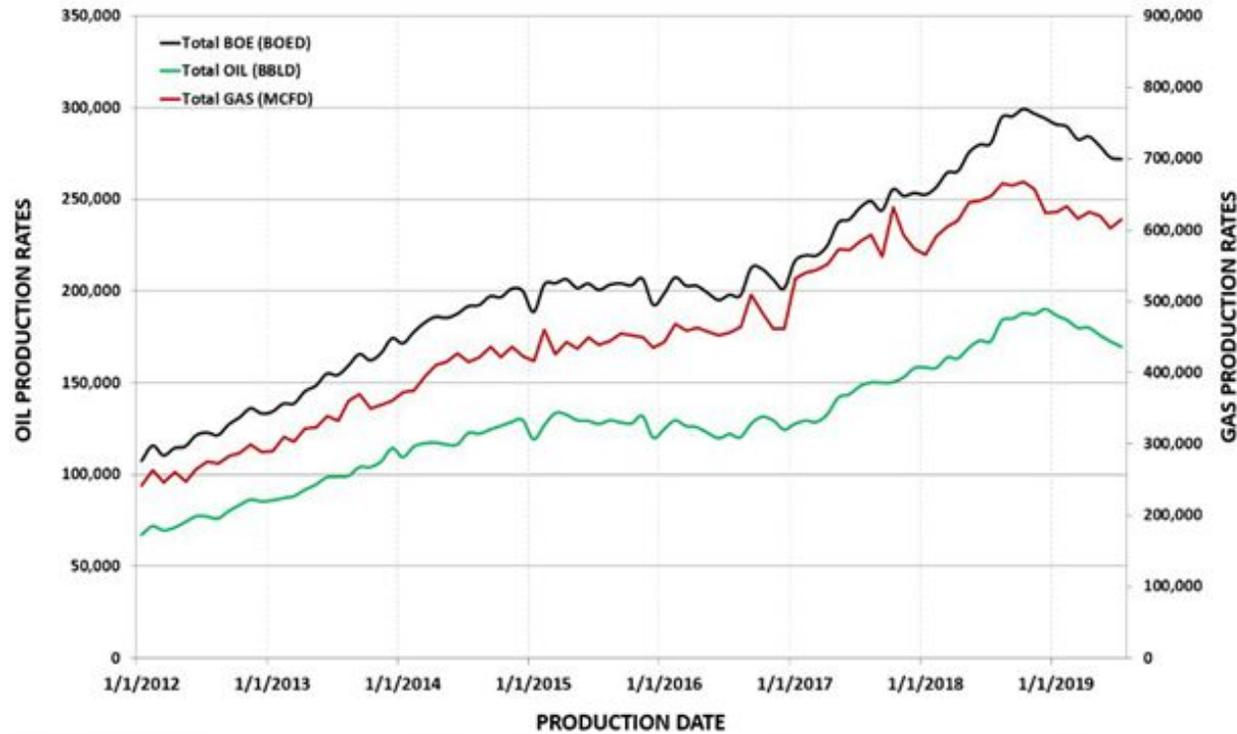


# PUF and AUF Revenue vs. WTI

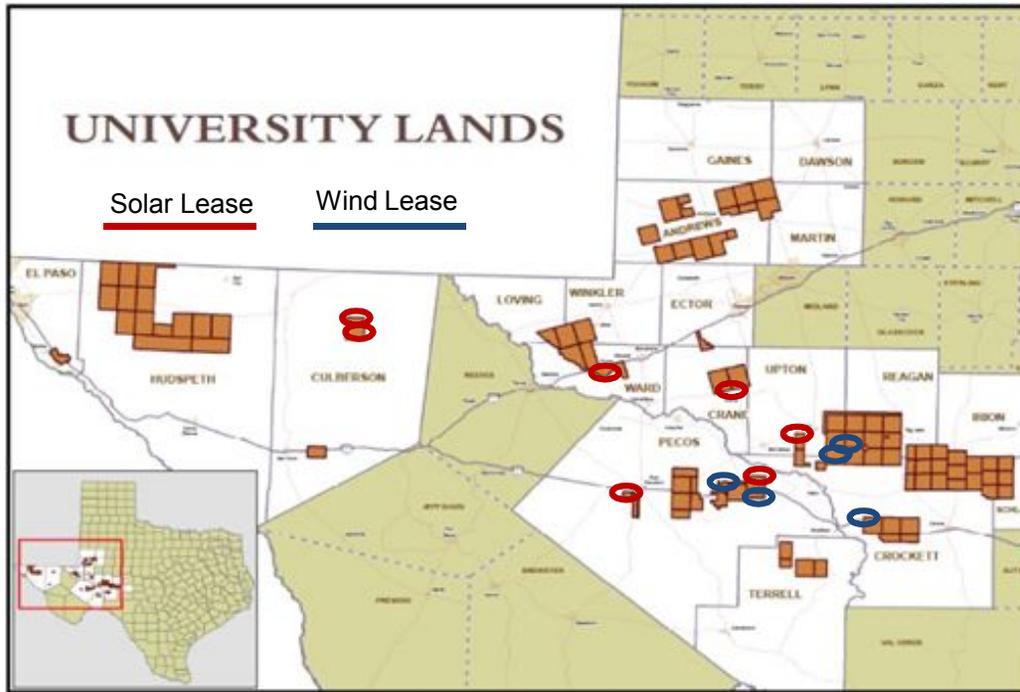
Agenda Book - 73



# PUF Lands Daily Production



# Renewable Energy Leasing



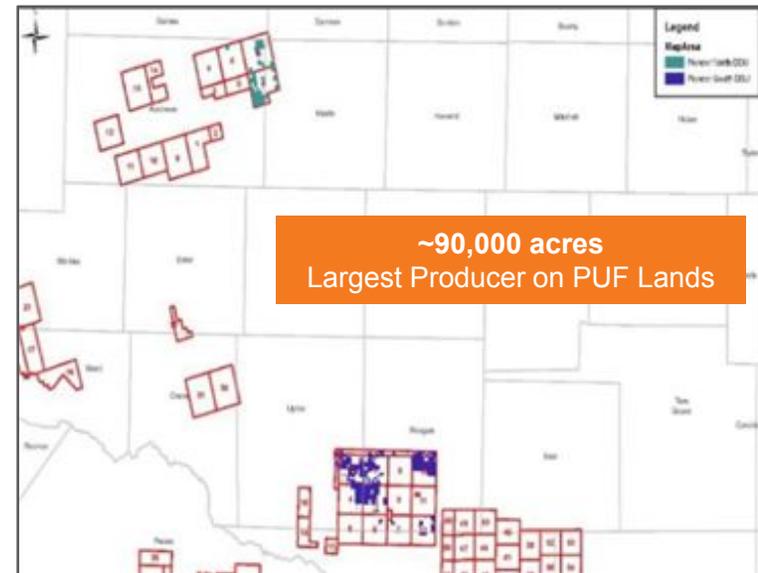
- 12 leases executed
    - Two additional leases being negotiated
  - 110,000 acres leased
  - 2,100 MW total plant capacity
  - \$210MM Total Present Value (PV)
    - \$6,500 PV per acre (solar)
    - \$1,000 PV per acre (wind)
- Locked-in, long-term surface revenue
  - Significant increase over grazing revenue
  - Social and environmental benefits
  - Oil and gas development can continue



# Key Oil & Gas Development Negotiation: Pioneer

*December 2017 – November 2019*

- Combines Pioneer’s leased acreage in north and south under one development agreement
- Increases drilling obligation by 75% to 700,000’ (70-100 wells) over 10 years with upside to increase up to 2,000,000’ with royalty incentives
- Penalties in place for non-performance
- Will require Pioneer to spend a minimum of ~\$700MM in capital on PUF Lands over next 10 years
- \$2MM damages payment requirement for surface-related issues; requires compliance with UL processes and contracts



# Environmental Stewardship & Resource Conservation

## University Lands' Mission

“To maximize the revenue from The Permanent University Fund (PUF) Lands by applying intensive management, accounting, conservation and environmental programs, which improve and sustain the productivity of The PUF Lands, protect the interests of The University of Texas System and promote awareness and sensitivity for the environment.”



- Lease Inspections
- Emissions Inspections
- Surface Restoration

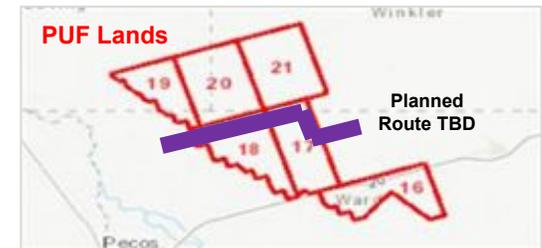
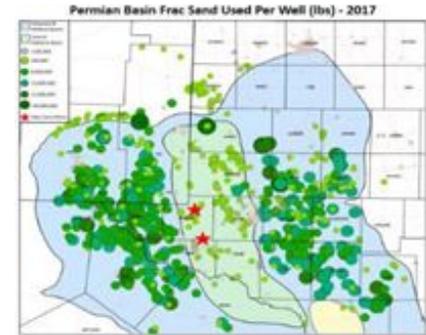
- Water Management & Conservation Initiatives
- Range Management
- Wildlife & Endangered Species Management



# Transportation Solutions



- Delivery of sand to hydraulically fracture wells is a key component for successful development of oil and gas resources
  - Typical well requires 15 million pounds of sand, requiring 325 truckloads
  - “Overland Conveyor” agreement executed with Atlas Sand in April 2019
  - Helps operators on and off PUF Lands, encourages accelerated development
  - Increases surface/AUF revenue to University Lands with new revenue stream
- Frac sand conveyor to span ~40 miles in total, ~12 miles on PUF Lands
  - Will convey 8 million to 12 million tons of sand per year
  - Estimated to reduce truck traffic by ~**18 million ‘truck miles’ per year**
  - More safely and reliably delivers high quality local sand to operators, further contributing to job creation, economic growth and energy security
- Atlas is currently working on the engineering and design of the conveyor and securing final necessary right-of-way with a final investment decision expected by Q1 2020
- Several customers already identified



# UL Lease Evaluation Team

*Cross-departmental collaboration*

## FY2019 Results

- 35 leases evaluated
- 33 well tests completed
- 13 leases terminated due to low oil and gas production or no oil and gas production
- **178 wells plugged**
- **9,900 acres returned to inventory**

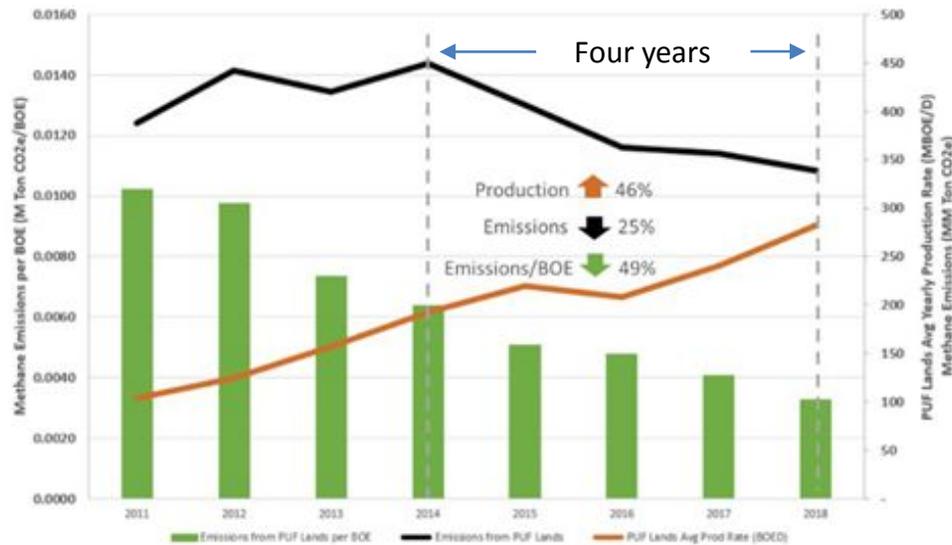
## Lease Restoration Example



- **50** oil and gas wells plugged
- **55** miles of steel and poly flowline removed
- **85** miles of powerlines/ poles removed
- **2** tank batteries reclaimed
- **3** satellites reclaimed
- **1** water station reclaimed



# Emissions Performance Trends & Inspections

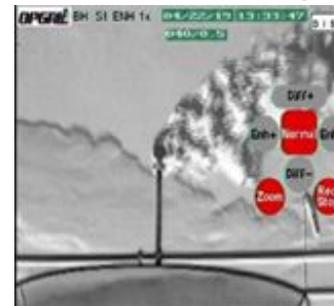


Sources: EPA FLIGHT Tool; University Lands' Internal Data, Enverus/DrillingInfo & IHS Enerdeq

## Leak Detection and Repair (LDAR)

- ~350 Infrared camera spot checks in 2019
- Average 15 inspections monthly

Infrared Camera Image



## Emissions Inspection Example

- LDAR identified non-functioning Vapor Recovery Unit (VRU)
- Notified Operator
- New VRU Installed

Vapor Recovery Unit



# UL's Key Long-Term Focus Areas

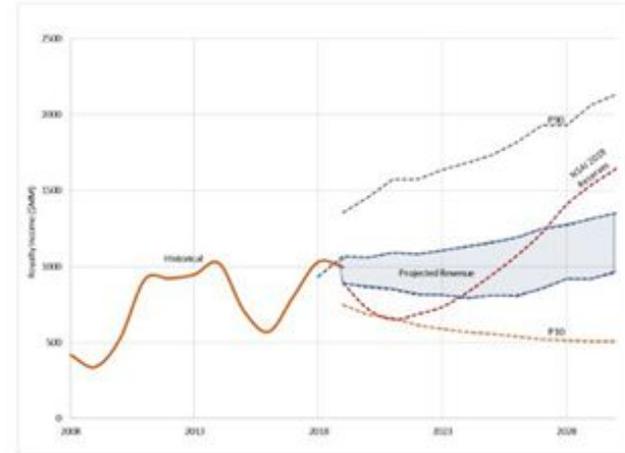
- **Emphasize prudently accelerated oil and gas development**
  - Incentivizing activity acceleration, optimal spacing and completions
  - Capital scarcity and consolidation can “deprioritize” less attractive acreage
  - Challenge is financial condition of several lessees with significant acreage holdings
- **Intensify/strengthen environmental strategy and objectives**
- **More local impact** – explore ways UL can help address West Texas infrastructure, health, education constraints
- **Continue water infrastructure initiatives**
- **Prudently increase wind and solar development**



# UL Strategic Plan Update – Q1 2020

## • PUF Lands – The Next 10 Years

- Dynamics of long-term energy supply and demand
- Expected growth & increased business complexity
- Risks & Challenges - market, regulatory and environmental
- Alignment with PUF Objectives
- Succession Planning and Talent Retention
- Prudent Oversight & Stewardship



10 Year Revenue  
**\$16.7 billion**

10 Year Revenue  
**\$9.2 billion**

10 Year Revenue  
**\$8.4 to \$11.4 billion**

10 Year Revenue  
**\$6 billion**



Strategic development of mineral resources on PUF Lands



Increased funding for the Permanent University Fund



Maximum benefit for UT and Texas A&M students

