



**TABLE OF CONTENTS
FOR
FINANCE AND PLANNING COMMITTEE**

Committee Meeting: 11/18/2020

Board Meeting: 11/19/2020
Austin, Texas

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

	Committee Meeting	Board Meeting	Page
Convene	<i>9:00 a.m. Chairman Hicks</i>		
1. U. T. System Board of Regents: Discussion and appropriate action regarding Consent Agenda items, if any, assigned for Committee consideration	Discussion	Action	28
2. U. T. System: Financial Status Presentation	Report/Discussion <i>Dr. Kelley</i>	Not on Agenda	29
3. U. T. System Board of Regents: Update on University Lands	Report/Discussion <i>Mr. Mark Houser</i>	Not on Agenda	35
Adjourn	<i>9:30 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 3 - 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

Fiscal Year-to-Date Actuals and Projected Fiscal Year-End

Dr. Scott Kelley
Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents Meeting
Finance and Planning Committee
November 2020

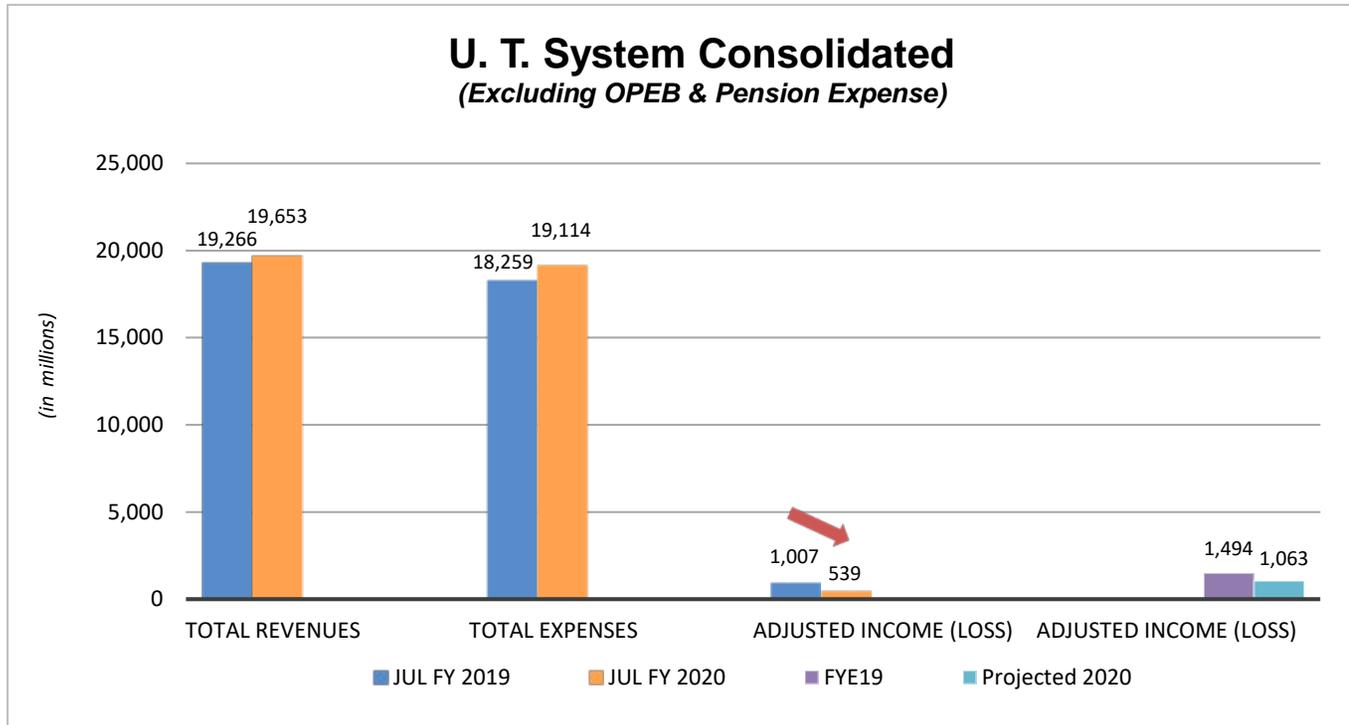


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U. T. System Consolidated Landscape

For the Period Ending July 31, 2020 and Projected Fiscal Year-End

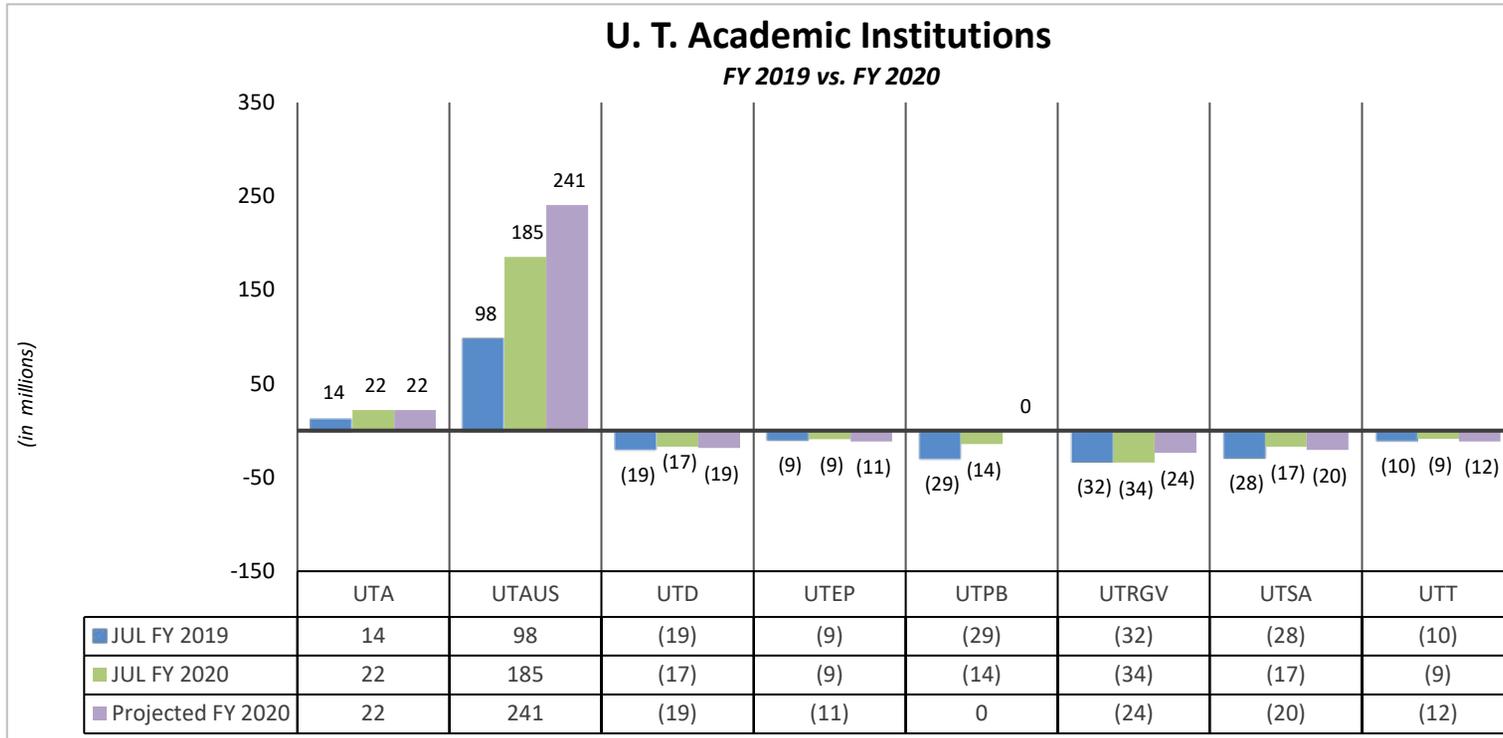


Source: July 2020 Monthly Financial Report



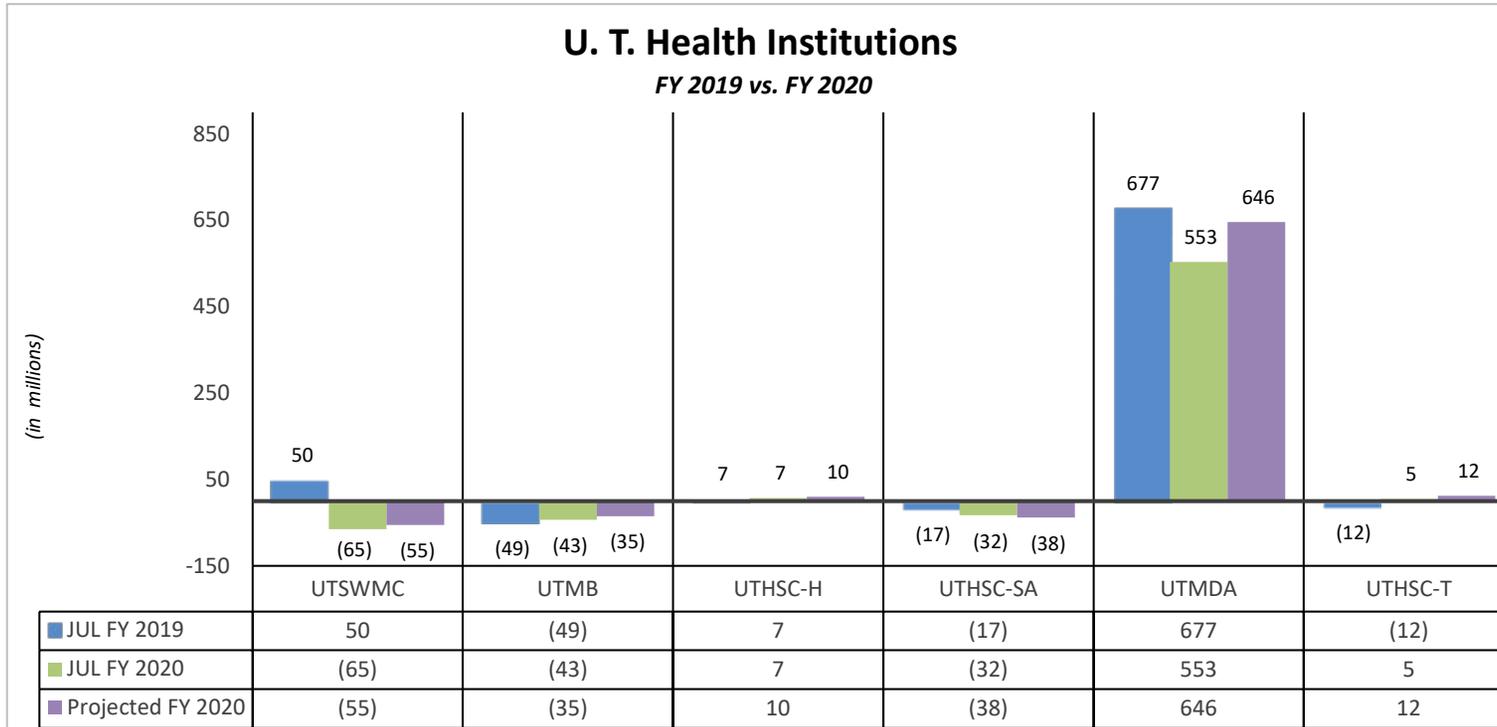
Academic Adjusted Income (Loss) Comparison

For the Period Ending July 31, 2020 and Projected Fiscal Year-End



Health Adjusted Income (Loss) Comparison

For the Period Ending July 31, 2020 and Projected Fiscal Year-End



Source: July 2020 Monthly Financial Report



Systemwide Operations Financial Summary

	FY 2020 Budget	FTEs	FYTD Actual (August 2020)	% of Budget
U. T. System Administration (AUF)	\$ 52,270,219	228.2	\$ 47,865,555	92%
Direct Campus Support (AUF)	42,557,676	113.0	42,226,823	99%
Other Operations Funded with AUF Reserves	520,800	–	686,740	132%
Service Departments and Other Non-AUF*	62,652,932	225.4	56,211,243	90%
Total – U. T. System Administration and Campus Support	\$ 158,001,627	566.6	\$ 146,990,360	93%

* 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.



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 Update

Mr. Mark Houser, Chief Executive Officer – University Lands

U. T. System Board of Regents Meeting
Finance and Planning Committee
November 18, 2020

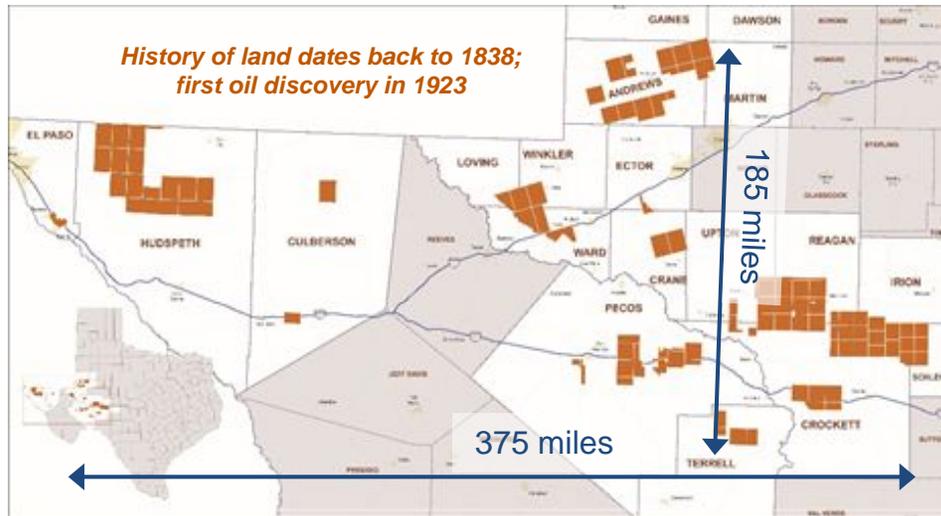


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The PUF & University Lands Organization

University Lands (UL) manages the surface and mineral interests of 2.1 million acres of land across nineteen counties in West Texas for the benefit of the Permanent University Fund (PUF). The PUF is the largest public university endowment in the U.S. and benefits more than 20 educational and health institutions across both The U. T. System and Texas A&M University System.



20,000
Wells drilled to-date

9,000
Wells currently producing

250+
Operators

>25,000
Identified locations

4,000
Leases

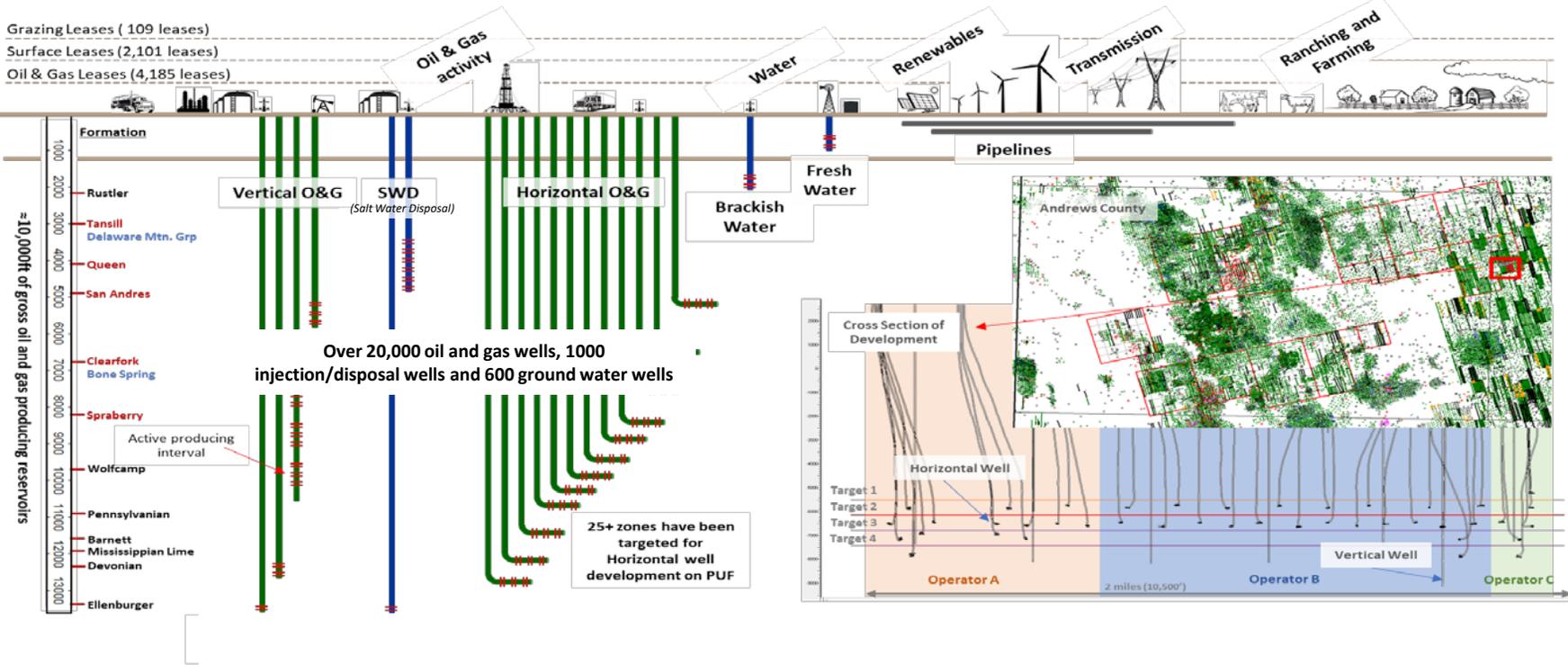
SURFACE LEASES

- Pipelines and power lines
- Grazing and ranching
- Renewables – wind and solar
- Groundwater sales
- Environmental programs

Primary revenue driver is mineral royalty revenue.



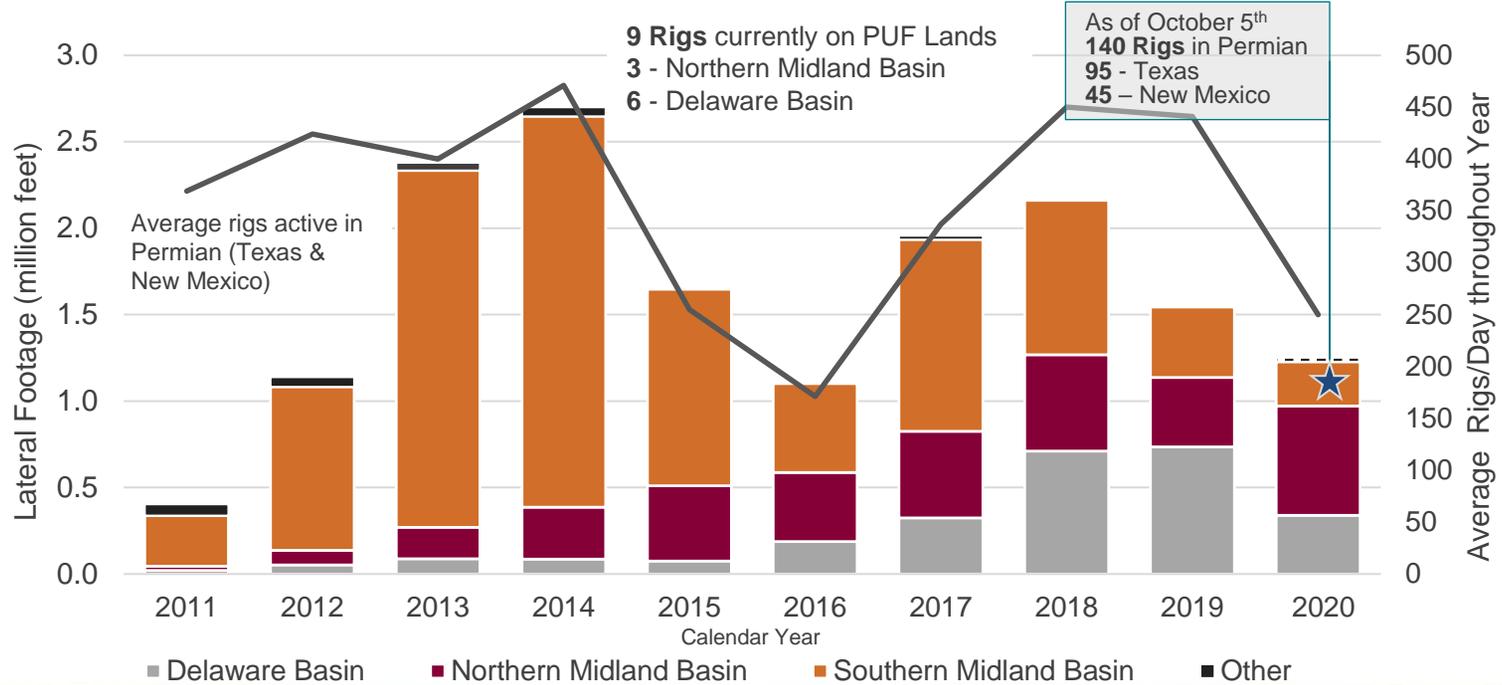
Management of PUF Acreage



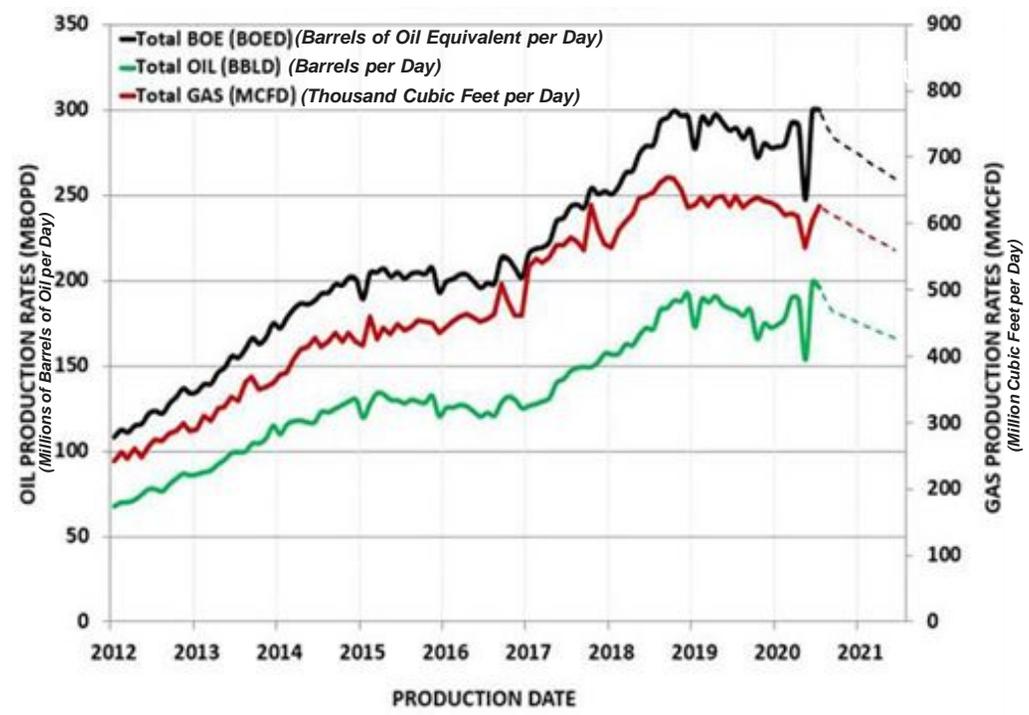
Agenda Book - 38

PUF Lands Horizontal Well Lateral Footage

PUF Horizontal Well Lateral Footage Put-on-Production (POP)

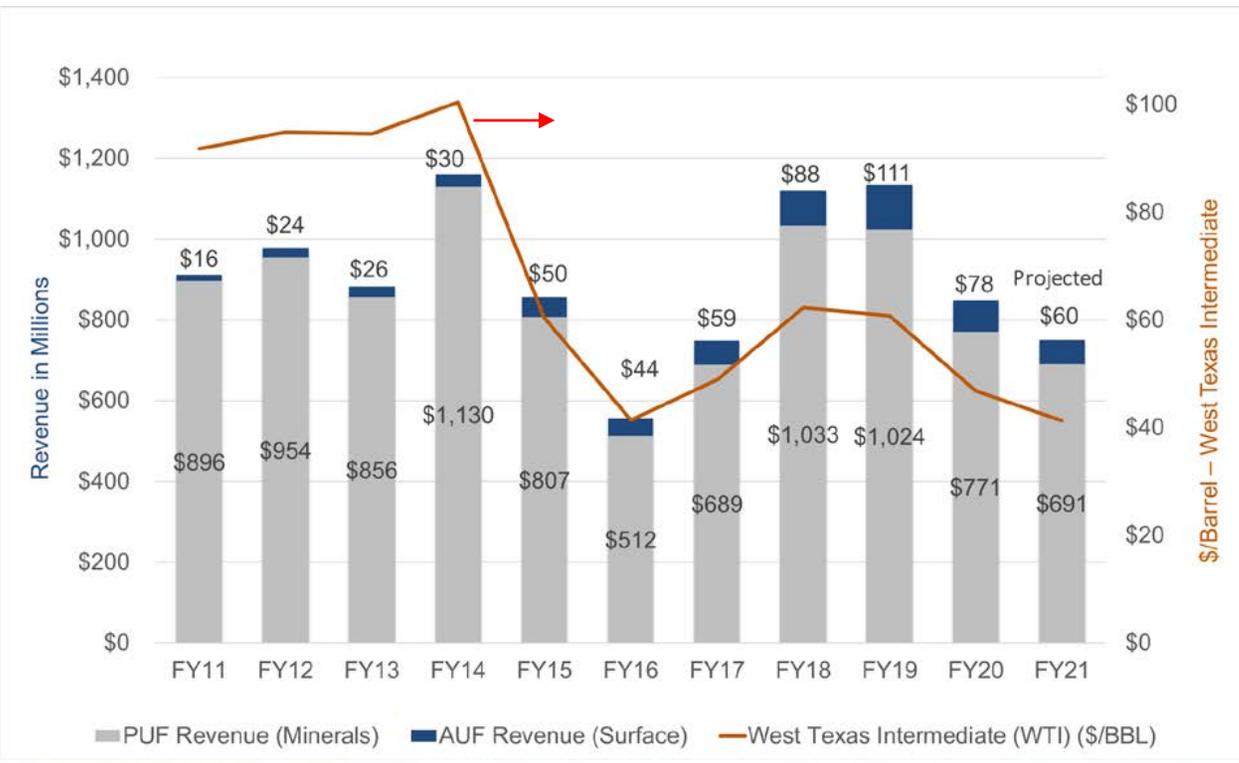


Daily Production from PUF Lands



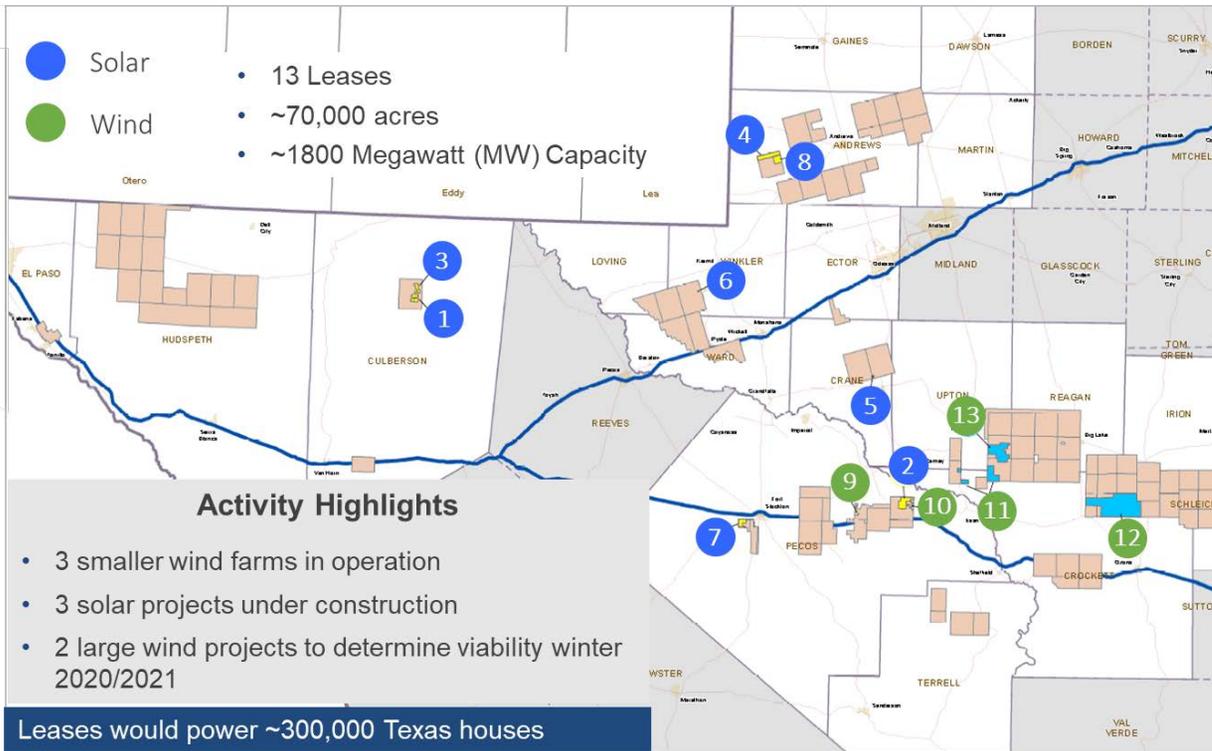
- Annual production for 2020 within 1% of budget and 2% of 2019 despite reduced activity in 3rd and 4th quarters
- Many wells were shut-in in April and May due to pandemic related oil price reductions
- Shut-ins began reversal in late June
- Limited wells online over last two months resulting in 3% monthly decline
- Potential wells online by December include Shell Oil Co., WPX Energy, Inc., Pioneer and QEP Resources, Inc.

UL: Historical AUF and PUF Revenue vs. Oil Price



- Oil revenue represents ~80% of total PUF revenue
- Total administrative and expense costs ~\$23 million annually
 - ~\$1/barrel of equivalent production
 - ~2.6% of revenue

Wind/Solar Leases



Solar Leases

- 1,824 Acres/200 MW Capacity
- 1,200 Acres/150 MW Capacity
- 1,423 Acres/150 MW Capacity
- 3,775 Acres/250 MW Capacity
- 123 Acres/15 MW Capacity
- 69 Acres/10 MW Capacity
- 1,900 Acres/150 MW Capacity
- 2,469 Acres/200 MW Capacity



Wind Leases

- 1,487 Acres/35 MW Capacity
- 2,500 Acres/37 MW Capacity
- 7,758 Acres/32.5 MW Capacity
- 43,000 Acres/270 MW Capacity
- 12,309 Acres/175 MW Capacity



UL Renewable Projects Under Development

Soft Bank – Titan Solar
Culberson County



Longroad – Prospero Solar
Andrews County



Recurrent Energy
Pecos County

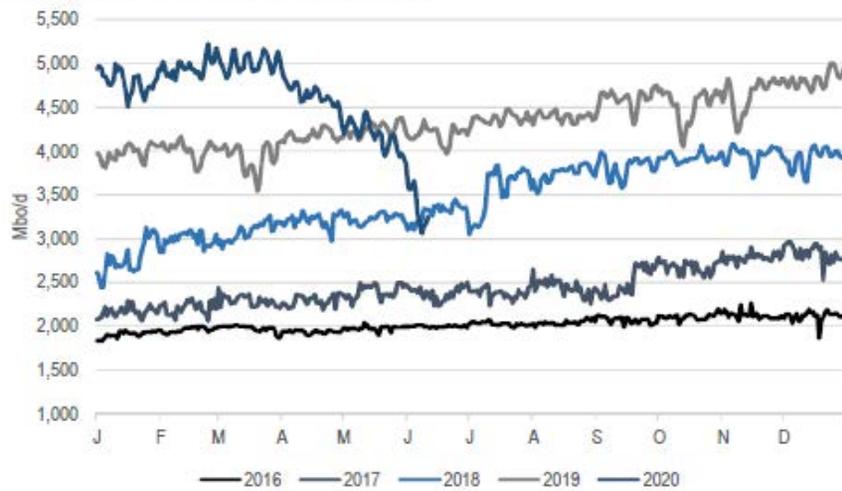


County	Operator	Capacity	Type	Status	Acreage
Culberson County	SoftBank	275 MW	Solar	Under Construction	4250 Acres
Andrews County	Long Road	250 MW	Solar	Under Construction	3840 Acres
Pecos County	Recurrent	350 MW	Solar	Under Construction	4600 Acres



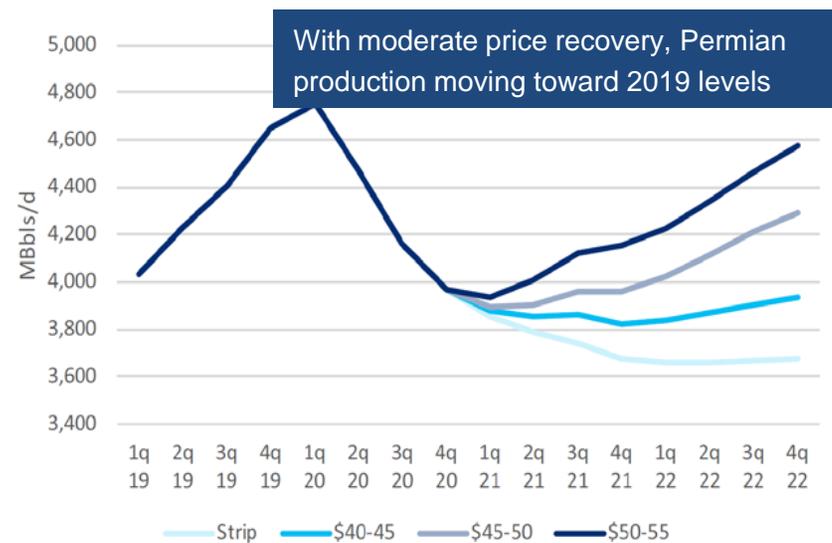
Moving Through the Chasm

Figure 15: Permian Oil Production



Source: Genscape, JPM

Figure 10. Permian Crude Oil Forecast Across Multiple WTI Price Scenarios

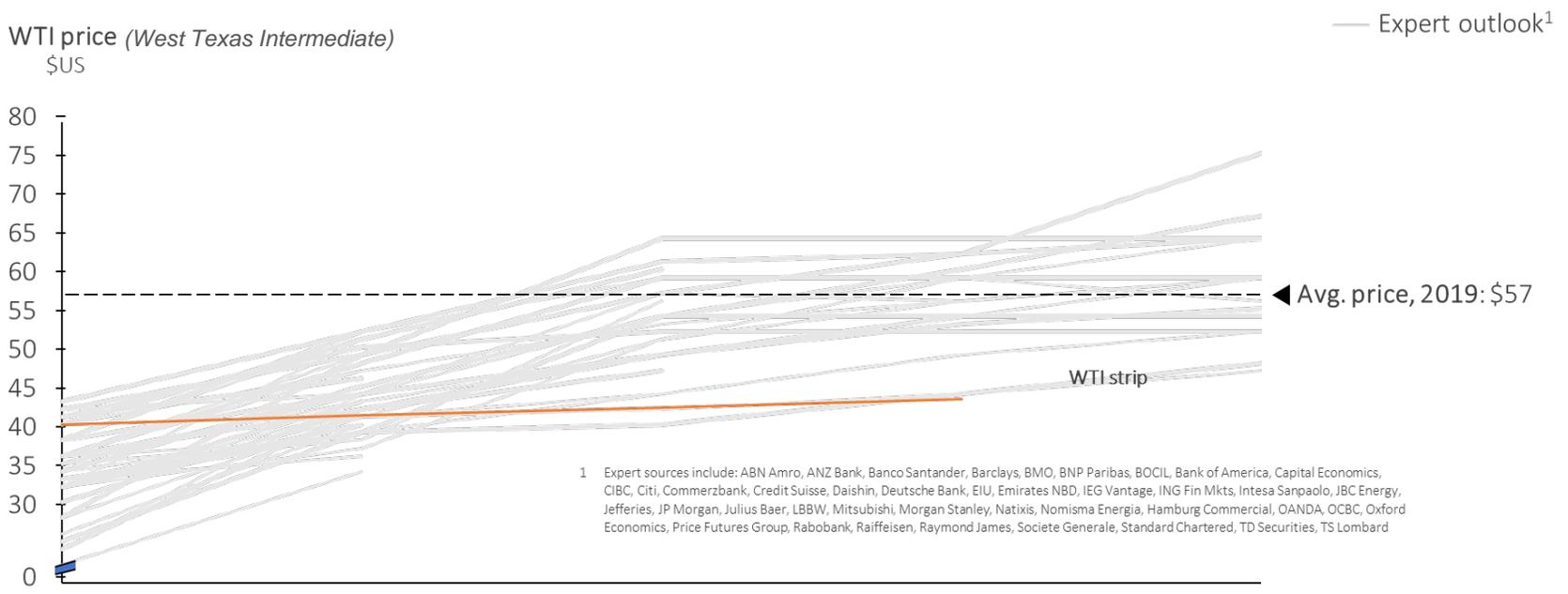


Source: Citi Research



Oil Price Outlooks

The outlook for oil price varies, but most forecasts call for prices to recover to 2019 levels by 2023



¹ Expert sources include: ABN Amro, ANZ Bank, Banco Santander, Barclays, BMO, BNP Paribas, BOCIL, Bank of America, Capital Economics, CIBC, Citi, Commerzbank, Credit Suisse, Daishin, Deutsche Bank, EIU, Emirates NBD, IEG Vantage, ING Fin Mkts, Intesa Sanpaolo, JBC Energy, Jefferies, JP Morgan, Julius Baer, LBBW, Mitsubishi, Morgan Stanley, Natixis, Nomisma Energia, Hamburg Commercial, OANDA, OCBC, Oxford Economics, Price Futures Group, Rabobank, Raiffeisen, Raymond James, Societe Generale, Standard Chartered, TD Securities, TS Lombard

UL Response to COVID-19

- **Conducted “COVID-19 Relook” strategic review**
 - Updated financial and organizational growth trajectory accordingly
 - Post COVID-19 – key element of change is energy demand growth, which has slowed
- **Collaborated with key operators, emphasized slowing activity through price crash**
 - Granted temporary deferral of drilling commitments upon operator request (aligned with GLO)
 - Allowed selective tolling of lease terminations due to production issues through May 2020
 - Continued discussions/negotiations with key operators on increased long-term drilling commitments
 - Working with several operators through bankruptcy process
- **Retained focus on sustainability and environmental issues**
 - Progress in flaring and emissions
 - Increased efforts on assessment of carbon capture potential for PUF Lands
- **Further advanced renewables strategy and activity**
 - Progressed three projects from development to construction phase
 - Focus on 2-3-year window for renewable expansion
- **Implemented critical organizational adjustments with modifications**



Energy Supply and Demand

- **Long-term energy supply and demand dynamics**
 - COVID-19 has significantly reduced energy demand and oil and gas activity.
 - Accelerated the “reorganization/consolidation” of the industry through bankruptcies, mergers, etc.
 - Demand “rebound” from COVID-19 has been a pleasant surprise.
 - Oil and gas will remain the dominant sources of energy for decades to come.
 - However, capital availability for oil and gas will be very limited over the next few years.
 - Export markets become increasingly important for domestic oil and gas.
 - Absolute growth in wind and solar development will be significant.
 - Buoyed by continuous innovation in and subsidies for renewable energy and electric vehicles.
- **Political and environmental pressures**
 - US remains a leader in worldwide energy supply and continues to drive significant improvements in environmental performance.
 - Environmental responsibility and transparency of producing companies continues to increase through a combination of voluntary efforts and public/shareholder demands.
 - Carbon capture efforts will increase substantially across the energy sector, including in the Permian.



The Permian Remains a World Class Energy Hub

- **The Permian Basin is and will remain the most important oil and gas resource in the world, and UL is among its largest owners.**
 - Tens of thousands of proven horizontal locations yet to be drilled
 - Large and diversified mix of operators, many of whom are well capitalized
 - Buoyed by the “Can Do” spirit of Texans and particularly West Texans
 - Ample pipeline capacity connecting to diverse markets
 - Permian Enhanced Oil Recovery is the world’s largest commercial carbon sequestration operation and can and will grow further.
- **West Texas is one of the most important hubs for renewable energy, connected to large and fast growing ERCOT market.**
- **The U. T. System, Texas A&M University System, and University Lands are well positioned to influence and lead in responsible energy development in the region, for the benefit of University stakeholders and the State of Texas.**



University Lands Strategic Priority-Win the Recovery!

- **Emphasize prudently accelerated oil and gas development**
 - Incentivizing activity acceleration, optimal spacing and completions
 - Capital scarcity and consolidation may “deprioritize” less attractive acreage
 - Financial condition of several lessees with large acreage holdings a challenge
- **Intensify/strengthen environmental strategy and objectives**
 - Current focus mostly on air – both emissions and flaring
- **Further and significantly increase wind and solar and water infrastructure development**
 - Deploy dedicated business development talent for water and solar
- **Further increase the use of U. T. and Texas A&M University Systems’ expertise for technology and policy advancement to enhance revenue of PUF Lands**





Santa Rita #1 Well, Reagan County, Texas – under renovation
Drilled in 1923, PUF Endowment receives its first royalty check for \$516.53

THANK YOU!

