JUNE 2014

THE UNIVERSITY OF TEXAS SYSTEM

Debt Overview

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. U. T. Rio Grande Valley has been created by statute but will not become operational until Fall 2015.

U. T. System Debt Programs

- All U. T. System debt is issued in the name of the Board of Regents and is issued centrally on behalf of the fifteen U. T. System institutions through two primary financing programs:
  - Revenue Financing System (RFS) secured by a system-wide pledge of all legally available revenues.
  - Permanent University Fund (PUF) secured by distributions from the PUF to the Available University Fund (AUF).
- The U. T. System was the first, and is now one of only three public universities, to be rated Aaa/AAA/AAA by Moody's Investors Service, Standard and Poor's and Fitch Ratings, respectively.
- The U. T. System has been issuing debt since at least 1932.

Revenue Financing System Bonds

Security: Security Lien on Pledged Revenues

Rating: Aaa/AAA/AAA
$6.0 billion outstanding (1)

Permanent University Fund Bonds

Security: Security Lien on Interest of the System in the AUF

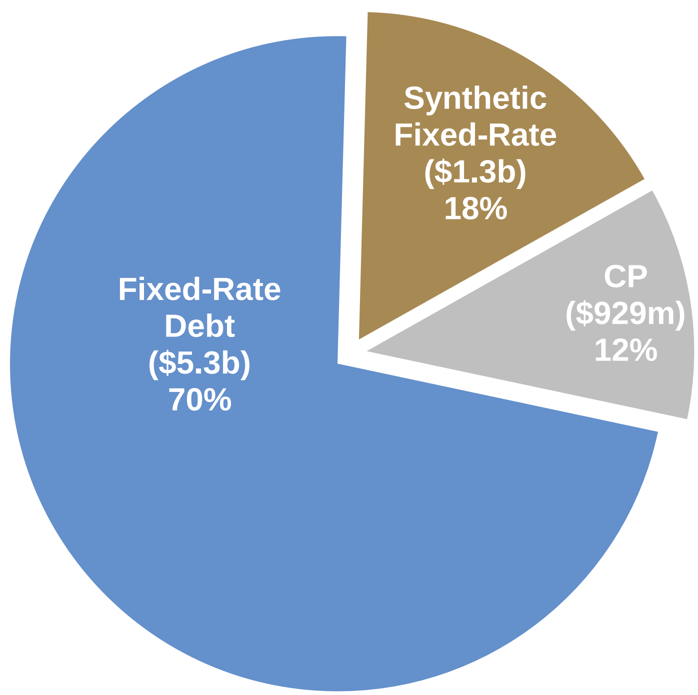
Rating: Aaa/AAA/AAA
$2.0 billion outstanding (1)

The University of Texas System Total Outstanding Debt $8.0 billion

(1) As of May 31, 2014

Conservative Debt Structure

- As of May 31, 2014, the U. T. System had $8.0 billion of PUF and RFS debt outstanding, of which almost 90% is fixed rate debt.
- The System maintains a declining debt service profile with no large bullet maturities. Long-term debt is typically structured to amortize over the useful life of the asset being financed.
- All of the System's variable rate demand bonds ("VRDBs") are in weekly mode with no daily-mode VRDBs. All VRDBs are hedged with fixed-payer swaps diversified across six counterparties and include provisions for one-way collateral posting from swap counterparties.
- The System has limited roll-over risk related to its commercial paper ("CP") programs due to daily maximums contained in dealer agreements.



Commercial Paper Programs

- The U. T. System has very successfully utilized commercial paper programs for more than 20 years providing U. T. institutions with very flexible, efficient and cost-effective financing options.
- The System utilizes both taxable and tax-exempt commercial paper on both the PUF and RFS debt programs primarily to provide interim financing before the debt is refinanced with long-term bonds.
- The System also utilizes commercial paper to finance capital equipment in lieu of more costly vendor financing.
- The System currently supports both of its commercial paper programs with internal liquidity in lieu of more costly bank liquidity, providing U. T. institutions with additional savings.
- The System’s RFS CP program is currently sized up to a maximum of $1.25 billion outstanding at any one time with $615 million currently outstanding. The System’s PUF CP program is currently sized up to a maximum of $750 million outstanding at any one time with $300 million currently outstanding.
- The current weighted average yield on the System’s tax-exempt CP is 0.08% per annum (8 basis points) and the current weighted average yield on the System’s taxable CP is 0.11% per annum (11 basis points).

Internal versus External Resources

- The U. T. System's debt programs are managed internally by the Office of Finance, a small group of professionals that manages the nation's 3rd largest debt portfolio in higher education on behalf of the System's 15 institutions

- The U. T. System does not rely on an external financial advisor, further reducing issuance costs for U. T. institutions.

	FY 2014 The University of Texas System ($/bond)	FY 2013 All Texas Bond Issuers ($/bond)(1)	FY 2013 All Texas Cities ($/bond)(1)	FY 2013 All Texas Counties ($/bond)(1)	FY 2013 All Texas School Districts ($/bond)(1)	FY 2013 All Texas Community/ Jr. Coll. ($/bond)(1)
Underwriter's Spread	$3.80	$4.23	$17.32	$10.25	$14.73	$11.83
Other Issuance Costs:						
Bond Counsel	0.50	0.58				
Financial Advisor	0.00	0.35				
Rating Agencies	0.43	0.57				
Printing	0.01	0.01				
Other	0.06	0.44				
Subtotal	1.00	1.95	18.35	11.30	11.90	7.39
Total Cost per Bond	$4.80	$6.18	$35.67	$21.55	$26.63	$19.22
Average Issue Size	$240 million	$175 million	$20 million	$25 million	$20 million	$31 million

(1) Source: Texas Bond Review Board 2013 Annual Report and Texas Bond Review Board 2013 Local Government Debt database

- The U. T. System utilizes various external resources including investment banks, bond counsel, tax counsel, paying agents, escrow agents, accountants and printers

Revenue Bond Authority

- Governing boards of higher education institutions are authorized to issue revenue bonds to finance capital assets pursuant to Chapter 55 of the Texas Education Code, including:

Sec. 55.02. SYSTEMWIDE REVENUE FINANCING PROGRAM. (a) The governing board of a university system may establish a systemwide revenue financing program to provide funds to acquire, purchase, construct, improve, renovate, enlarge, or equip property, buildings, structures, facilities, roads, or related infrastructure at an institution, branch, or entity of the university system.

Sec. 55.13. AUTHORITY TO ISSUE REVENUE BONDS. (a) For the purpose of providing funds to acquire, purchase, construct, improve, enlarge, and/or equip any property, buildings, structures, activities, services, operations, or other facilities, for and on behalf of its institution or institutions, or any branch or branches thereof, each board may issue its revenue bonds from time to time and in one or more issue or series, to be payable from and secured by liens on and pledges of all or any part of any of the revenue funds of the board and its institution or institutions, or any branch or branches of any of its institutions.

Revenue Financing System Overview

- The U. T. System's Revenue Financing System provides a single, cost-effective financing structure for revenue-supported indebtedness of U. T. System institutions.
- Under the Master Resolution, the Board of Regents 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 RFS 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.
- The Master Resolution 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., System institutions) on whose behalf the debt is issued possess the financial capacity to satisfy their direct obligations.

Revenue Financing System Overview (cont.)

- Revenue Financing System debt is often issued for revenue-generating projects, such as student housing, parking facilities, and auxiliary projects.

- Net revenue generated by the project (i.e. revenues less operating expenses) is typically used to pay debt service on debt issued to finance the project.

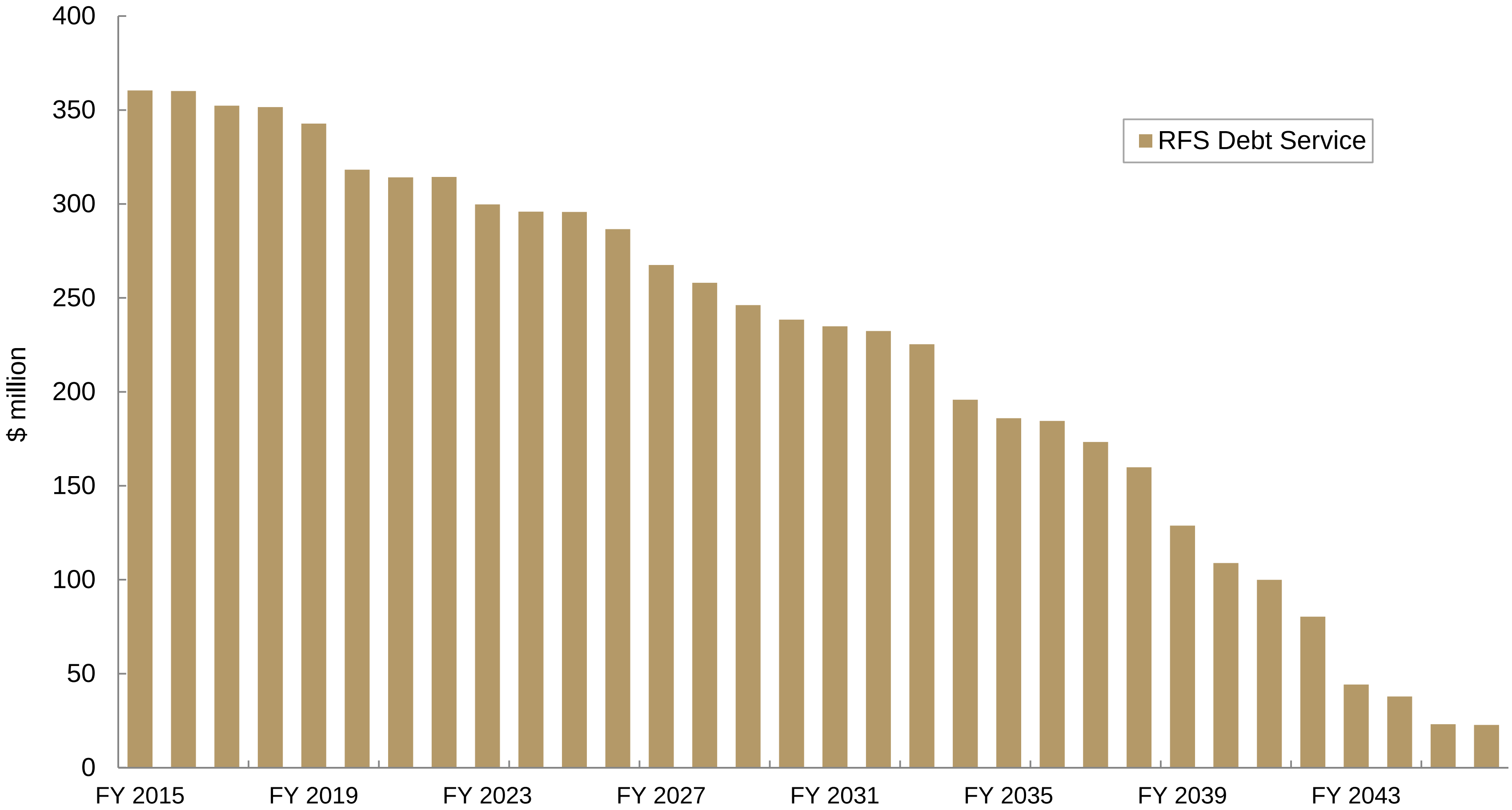
- The debt is typically structured to amortize over the useful life of the project so that all beneficiaries of the project share in the cost of financing the project.

- Tuition revenue bond projects are also financed under the Revenue Financing System

- The System's RFS debt is rated Aaa/AAA/AAA by Moody's, S&P, and Fitch, respectively

RFS Debt Service Profile

- As of May 31, 2014, there was $4.4 billion in long-term RFS (non-TRB) debt outstanding.



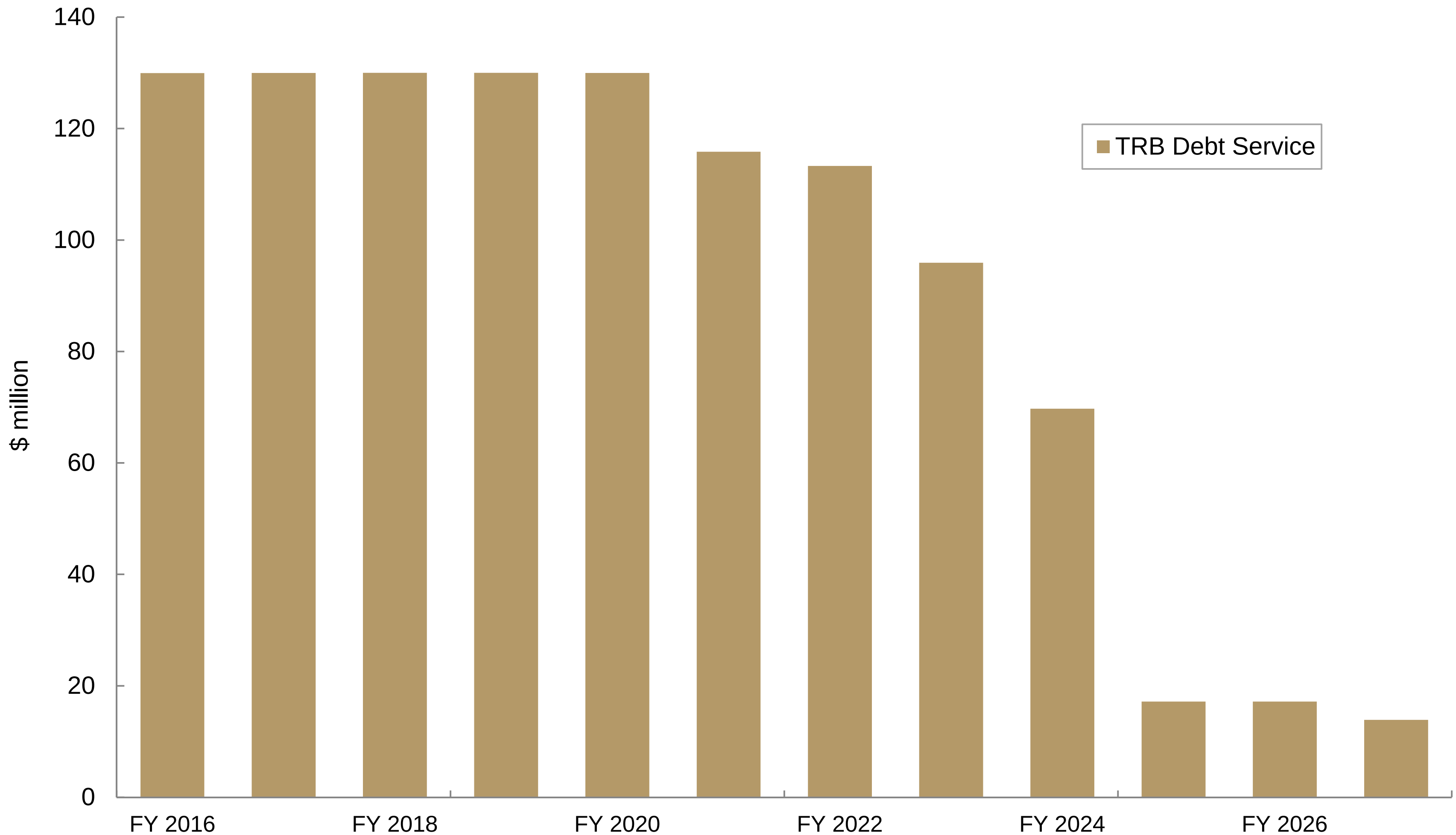
NOTE: Includes debt service on all outstanding RFS debt outstanding as of May 31, 2014; however, excludes debt service on outstanding commercial paper notes. Expected annual debt service requirements on the Series 2007B bonds and Series 2008B bonds have been computed based on the fixed-payer rates achieved as a result of the associated swap agreements. Expected annual debt service requirements on the Series 2009B, Series 2010C and the Series 2010D bonds are reflected 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."

Tuition Revenue Bonds

- Tuition revenue bonds (TRBs) are specifically authorized by the Legislature under Chapter 55 of the Education Code.
- Despite the name, TRB debt service is not paid from tuition and fees. In fact, an institution need not have tuition to be authorized by the Legislature to issue TRBs.
- TRBs for U. T. institutions 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.
- While not a legal obligation, the State has been reimbursing TRB debt service since 1971.
- <u>The entire reason TRBs were instituted is as a mechanism for the State to assist institutions in funding much needed capital projects, with the Legislature specifically approving individual TRB projects and funding the associated debt service with general revenue.</u>
- <u>Without the general revenue debt service appropriations, there is no need for TRB authorizations since higher education institutions already have authorization to issue revenue bonds.</u>

TRB Debt Service Profile

- U. T. System institutions only request actual TRB debt service in LAR requests, with TRB debt service amounts known through FY 2027. For the FY 2016-17 biennium, aggregate TRB debt service for U. T. institutions is approx. $130 million annually.



Permanent University Fund Overview

- The Permanent University Fund ("PUF") consists of 1) approximately 2.1 million acres of land located in 24 counties primarily in West Texas; and 2) investments made with the revenue of mineral leases on that land.

- PUF investments are managed by the University of Texas System Investment Management Company ("UTIMCO") under the direction of the U. T. Board of Regents.

- Subject to certain Constitutional restrictions, including the maintenance of purchasing power, the U. T. Board of Regents determines the amount of annual PUF distributions, which cannot exceed 7%, unless necessary to pay PUF debt service.

- Under the Texas Constitution, distributions from the PUF constitute the Available University Fund (AUF), which is appropriated to service PUF debt and for the support and maintenance of System Administrations and of U. T. Austin, Texas A&M College Station, and Prairie View A&M.

- Two-thirds of the AUF is appropriated to the U. T. System and one-third is appropriated to the Texas A&M System.

- The System's PUF debt is rated Aaa/AAA/AAA by Moody's, S&P, and Fitch, respectively.

PUF and AUF Cash Flow Chart

PERMANENT UNIVERSITY FUND (PUF)

PUF Land
(2,109,190 acres)
Mineral Receipts

→

Investments
($16.5 billion market value as of 04/30/14)

↓

AVAILABLE UNIVERSITY FUND (AUF)

↓ ↓

2/3rds to U.T. System

Security for U.T. System PUF Bonds and Notes:

PUF Bonds payable from the first lien on the Interest of the U.T. System in the AUF

Residual AUF

Residual AUF income constitutionally appropriated to U.T. Austin and the U.T. System for specified purposes.

1/3rd to A&M System

Security for A&M System PUF Bonds and Notes:

PUF Bonds payable from the first lien on the Interest of the A&M System in the AUF

Residual AUF

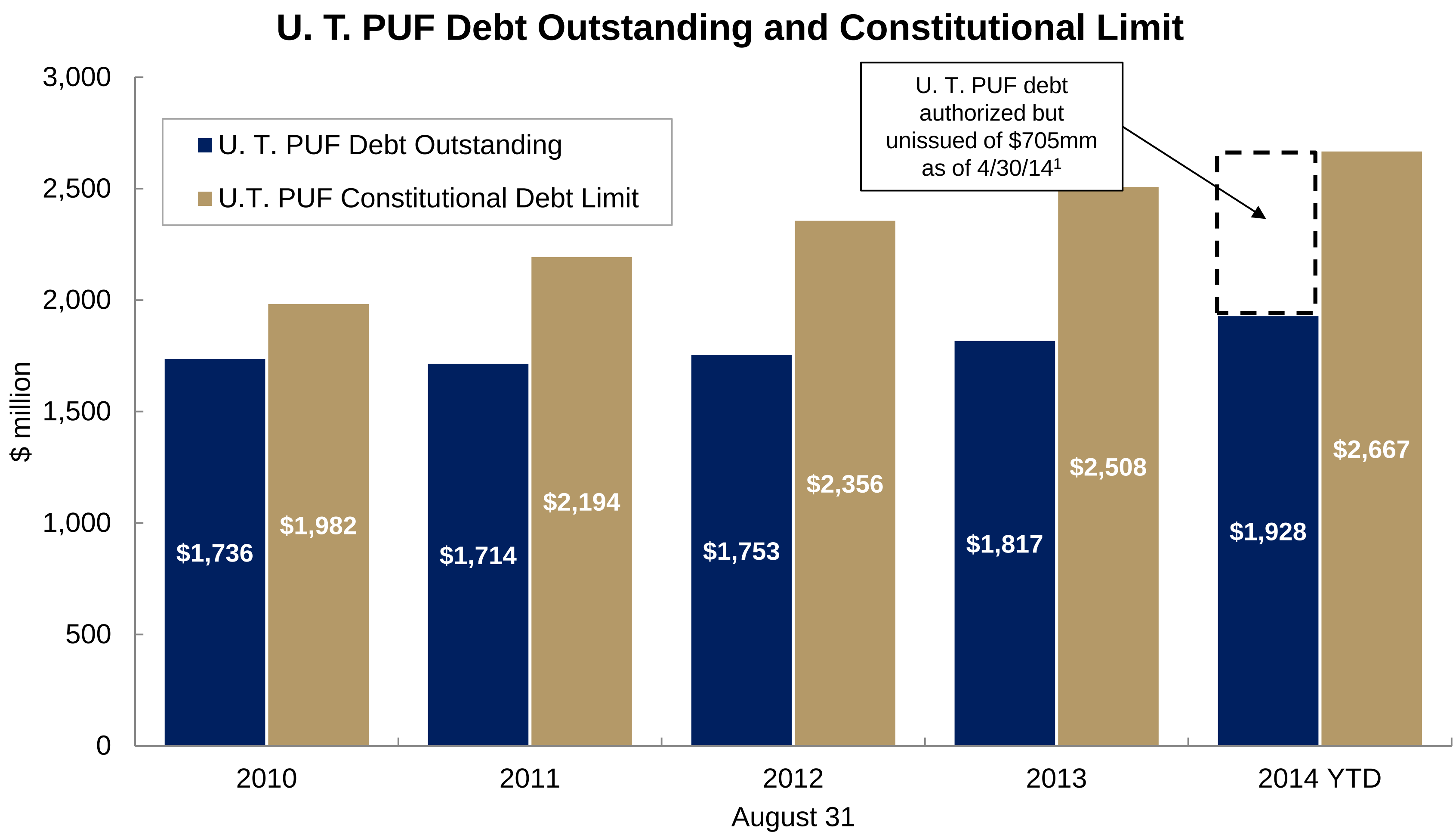
Residual AUF income constitutionally appropriated to the A&M System for specified purposes.

PUF Bond Authority

- The boards of regents of the U. T. System and the Texas A&M System are authorized by Article VII, Section 18, to issue PUF bonds.
- Outstanding U. T. System bonds may not exceed 20 percent of the cost value of PUF investments, and Texas A&M System bonds may not exceed 10 percent of that cost value.
- PUF bond proceeds may only be used for acquiring land either 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 library books and library materials, and refunding PUF bonds.
- PUF bond proceeds may not be used for student housing, intercollegiate athletics, or auxiliary enterprises.

Constitutional Restriction on PUF Debt

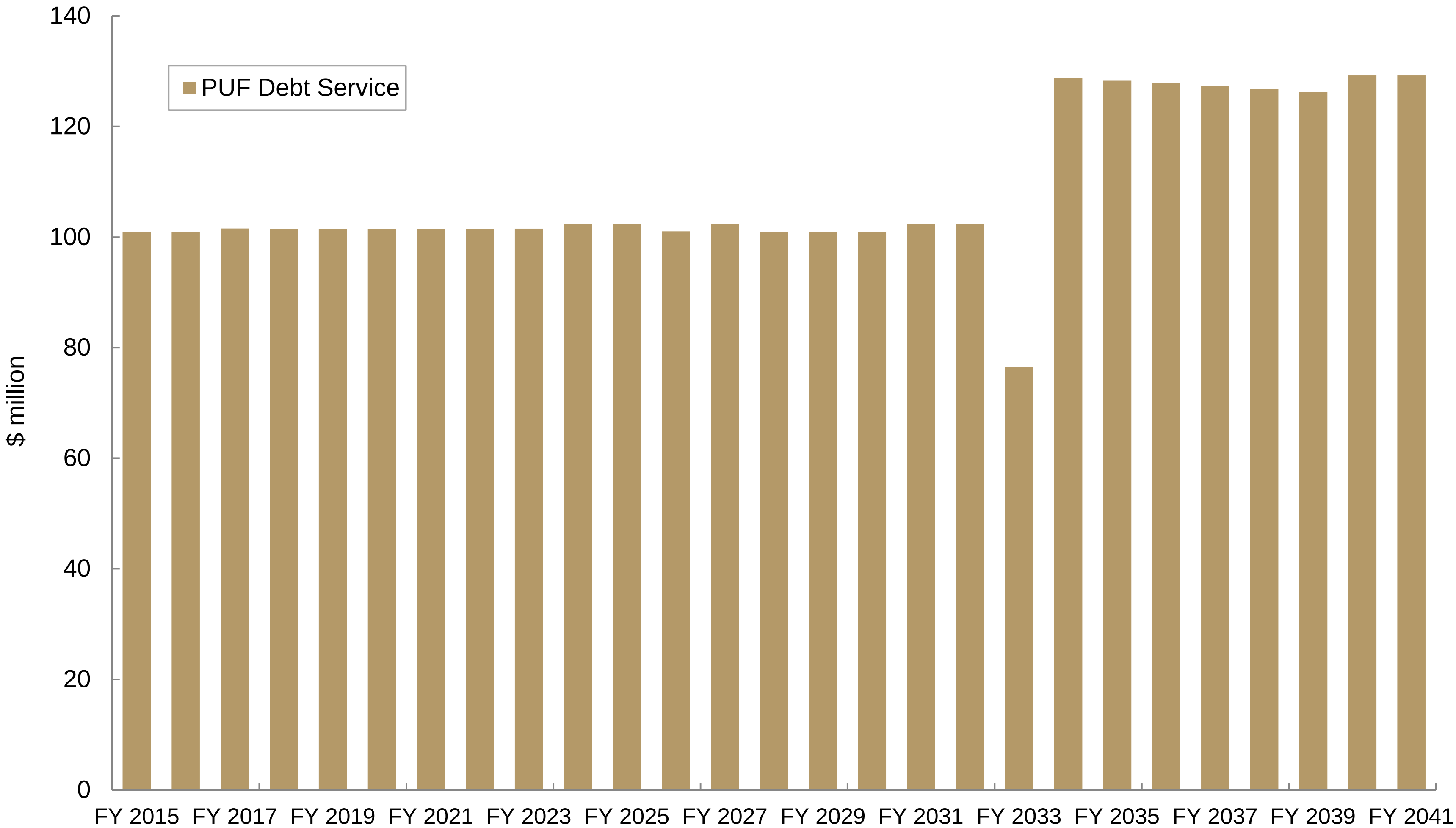
- Art. VII, Sec. 18 of the Texas Constitution limits the aggregate amount of PUF debt that may be issued by the U. T. Board of Regents: debt outstanding may not exceed 20% of the cost value of PUF investments, exclusive of the value of PUF lands.
- The System is currently at the Constitutional limit including PUF debt allocated by the Board of Regents to specific projects that has yet to be issued.



1. U.T. PUF Constitutional Debt Limit based on April 30, 2014 PUF book value of $13.34 billion.

U. T. System PUF Debt Service Profile

- As of May 31, 2013, there is $1.63 billion in long-term PUF debt outstanding



NOTE: Includes debt service on all outstanding PUF Bonds as of May 31, 2013. Expected annual debt service requirements on the Series 2008A bonds has 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 2009A bonds are reflected 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."