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FOR
FINANCE AND PLANNING COMMITTEE**

Committee Meeting: 11/9/2016

Board Meeting: 11/10/2016
Austin, Texas

*R. Steven Hicks, Chairman
David J. Beck
Wallace L. Hall, Jr.
Jeffery D. Hildebrand
Sara Martinez Tucker*

	Committee Meeting	Board Meeting	Page
Convene	<i>2:15 p.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	<i>2:15 p.m. Discussion</i>	Action	96
2. U. T. System: Key Financial Indicators Report	<i>2:20 p.m. Report/Discussion Dr. Kelley</i>	Not on Agenda	97
3. Item Deferred			106
4. U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the year and quarter ended August 31, 2016	<i>2:35 p.m. Report/Discussion Mr. Mark Warner, Interim CEO and CIO</i>	Report	107
5. U. T. System: Report and discussion on Public Private Partnership Financing	<i>2:50 p.m. Report/Discussion Dr. Kelley</i>	Not on Agenda	113
6. U. T. System Board of Regents: Discussion of matters related to University Lands	<i>3:05 p.m. Report/Discussion Regent Cranberg Mr. Houser</i>	Not on Agenda	123
Adjourn	<i>3:15 p.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 is located at the back of the book. Consent Agenda items assigned to this Committee are on [Pages 190 - 195](#).

2. U. T. System: Key Financial Indicators Report

REPORT

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will discuss the Key Financial Indicators Report as set forth on the following pages. The report represents the consolidated and individual operating detail of the U. T. System institutions.

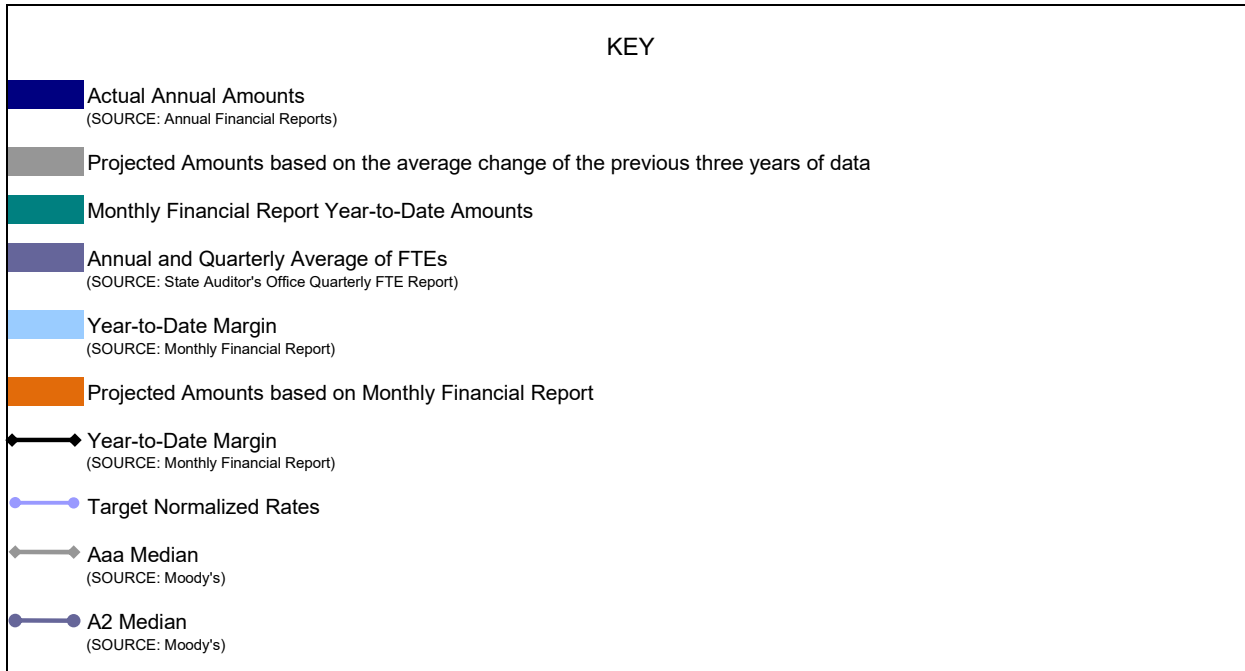
The Key Financial Indicators Report compares the Systemwide quarterly results of operations, key revenues and expenses, reserves, and key financial ratios in a graphical presentation from Fiscal Year 2012 through July 2016. Ratios requiring balance sheet data are provided for Fiscal Year 2011 through Fiscal Year 2015.

THE UNIVERSITY OF TEXAS SYSTEM

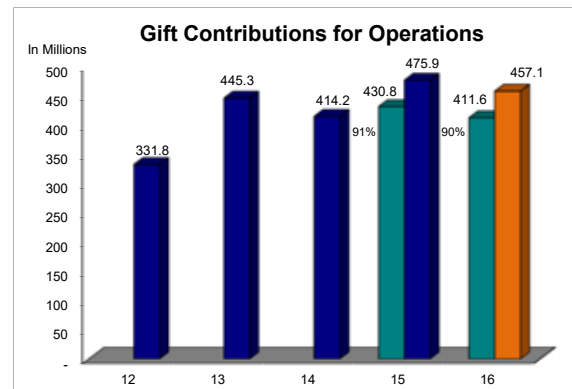
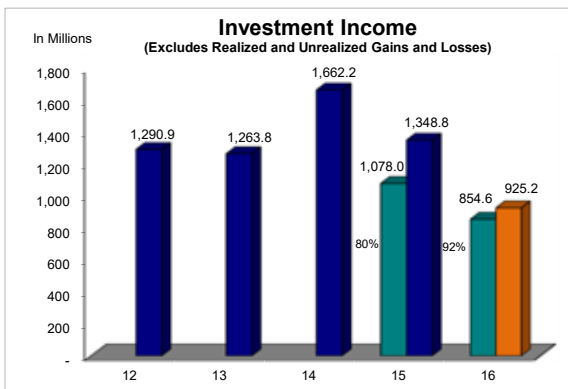
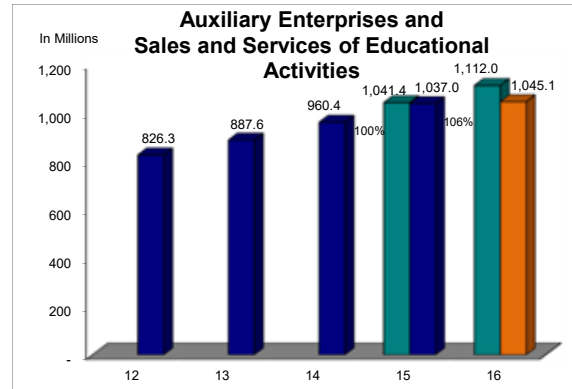
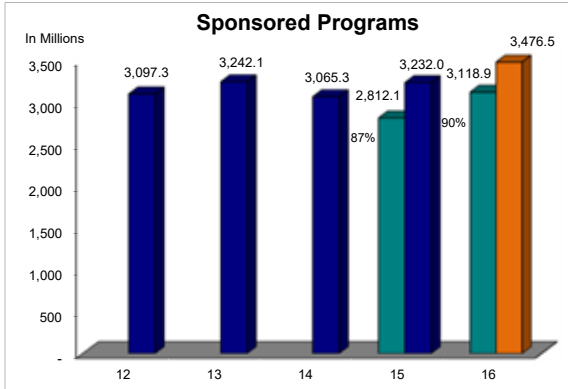
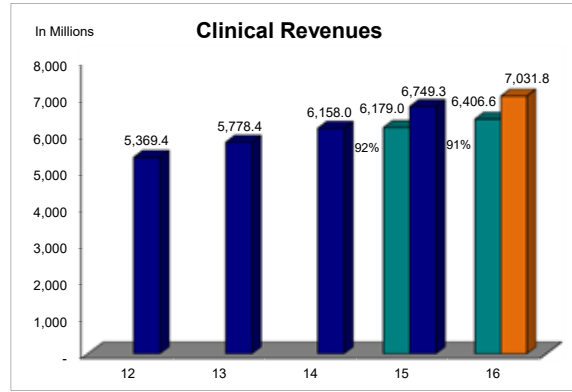
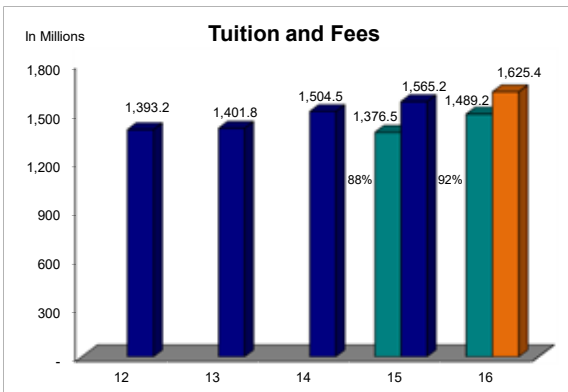
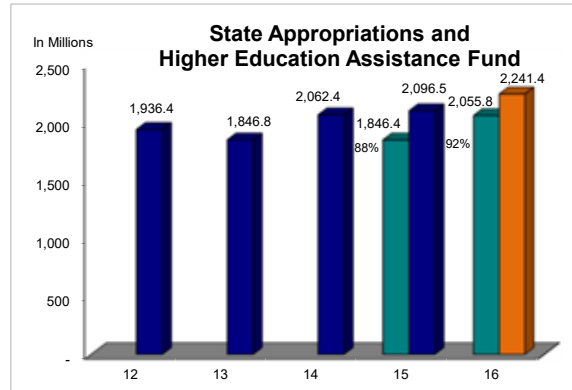
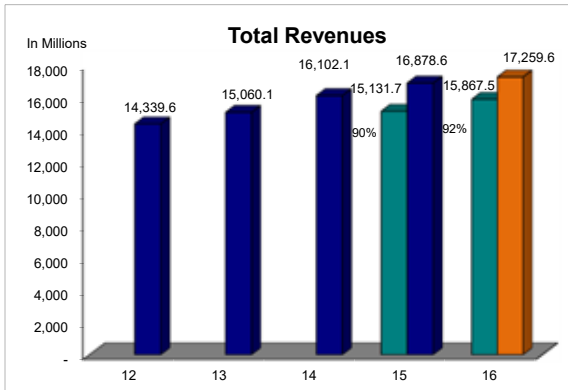


KEY FINANCIAL INDICATORS REPORT

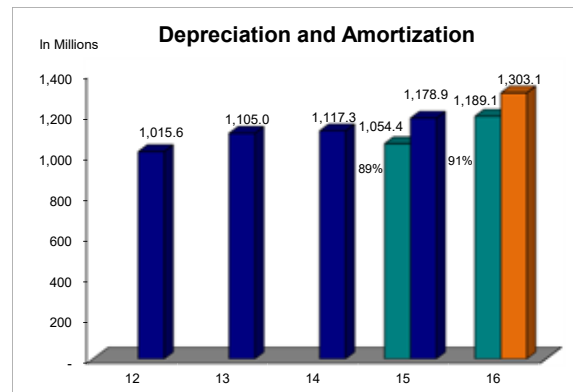
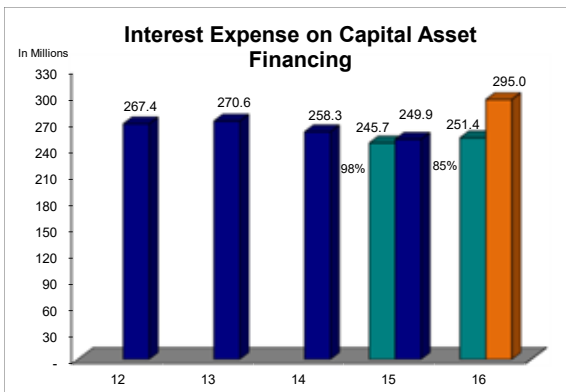
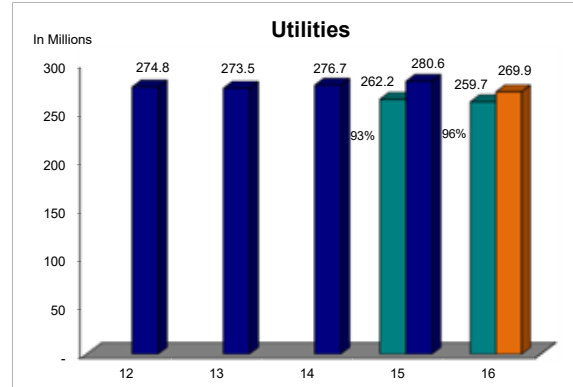
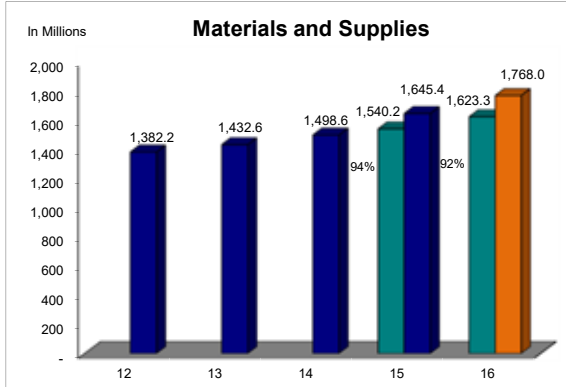
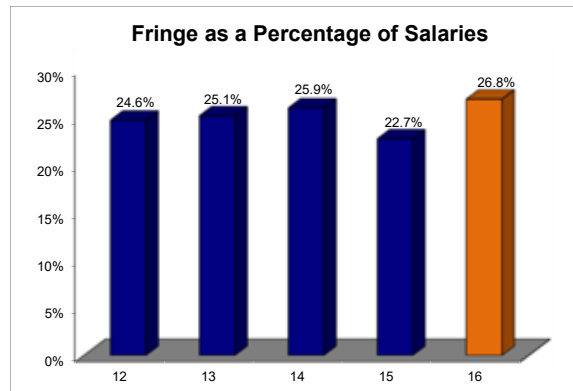
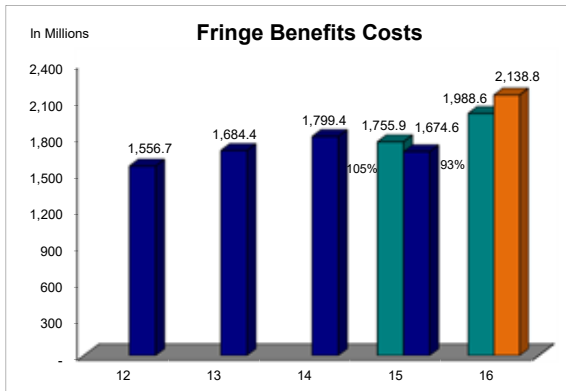
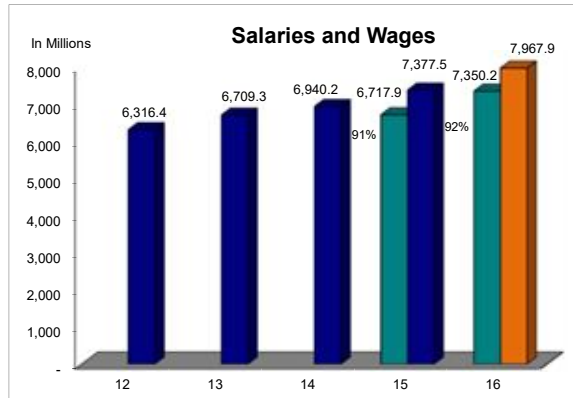
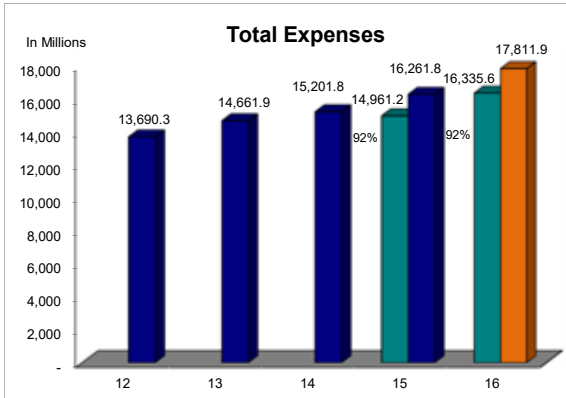
THROUGH JULY 2016



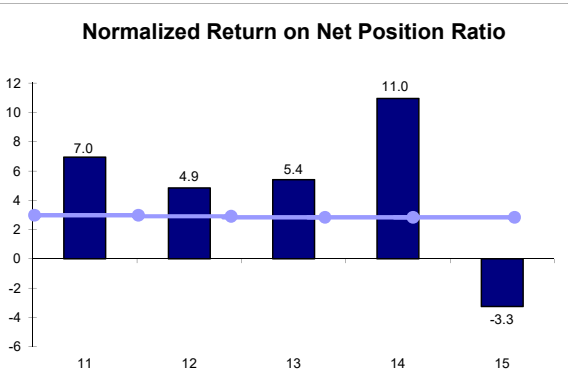
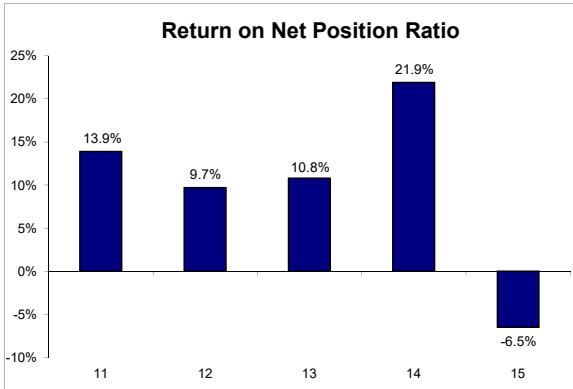
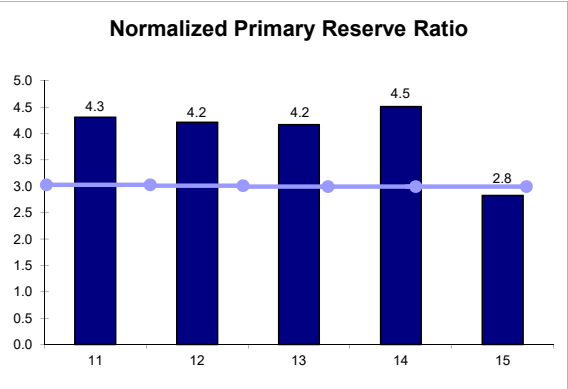
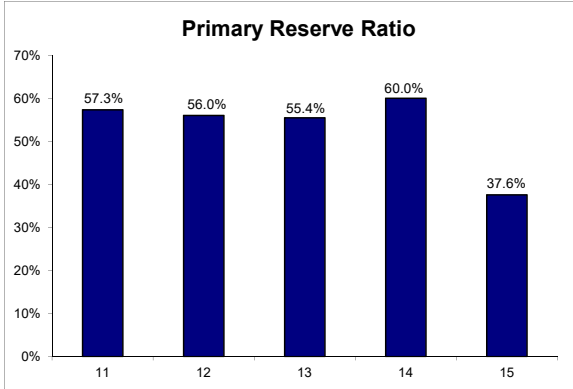
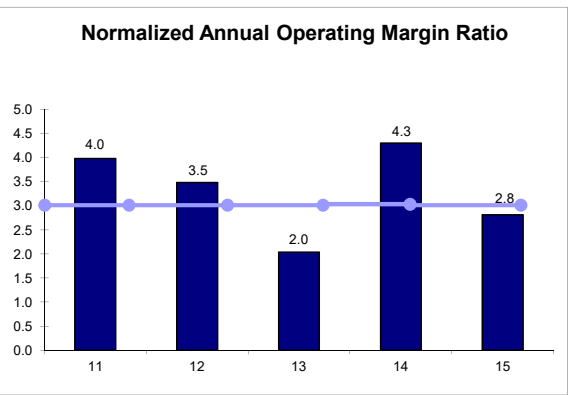
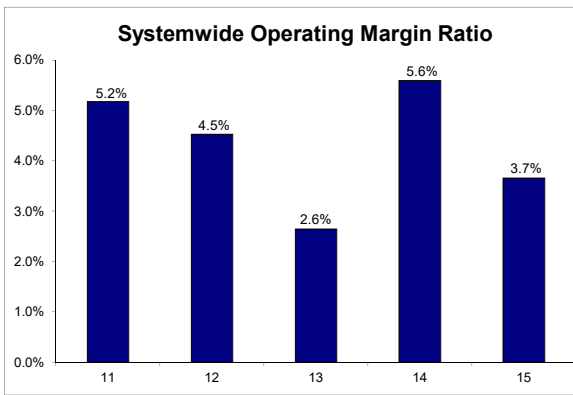
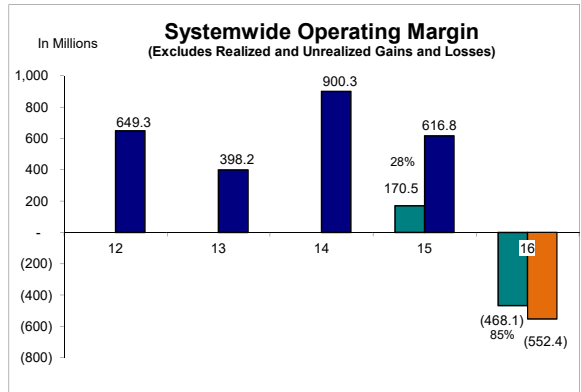
KEY INDICATORS OF REVENUES
ACTUAL 2012 THROUGH 2015
PROJECTED 2016
YEAR-TO-DATE 2015 AND 2016 FROM JULY MONTHLY FINANCIAL REPORT



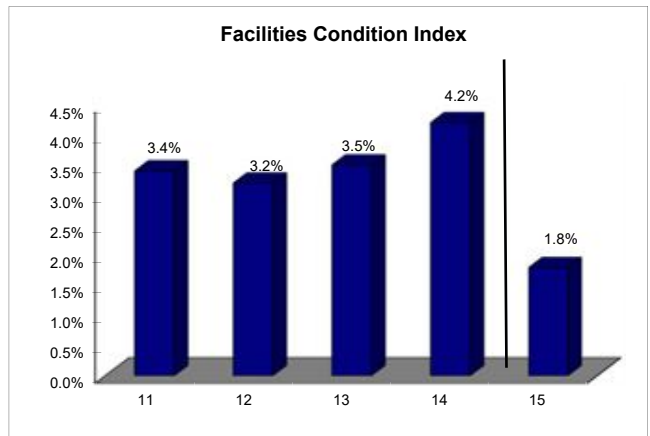
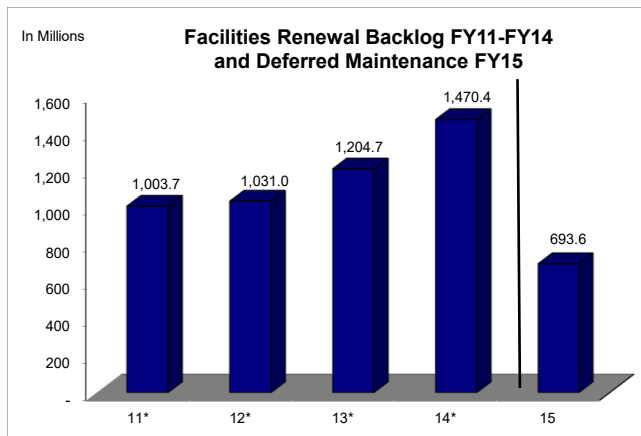
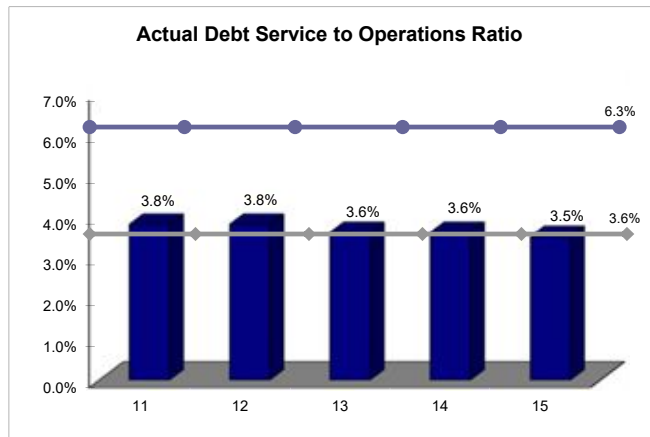
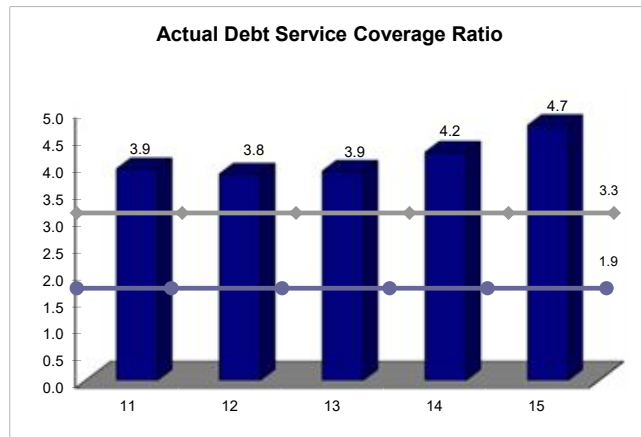
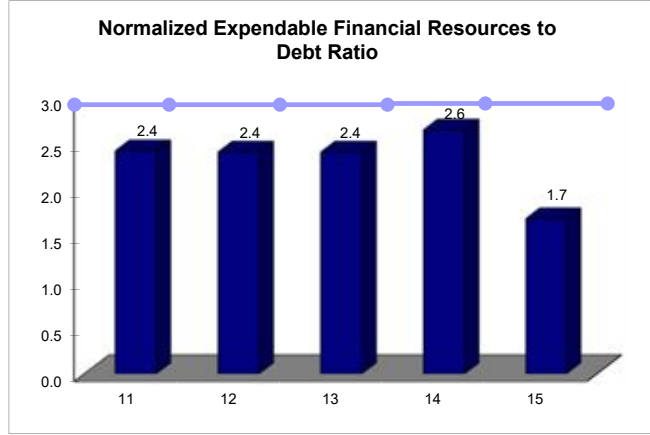
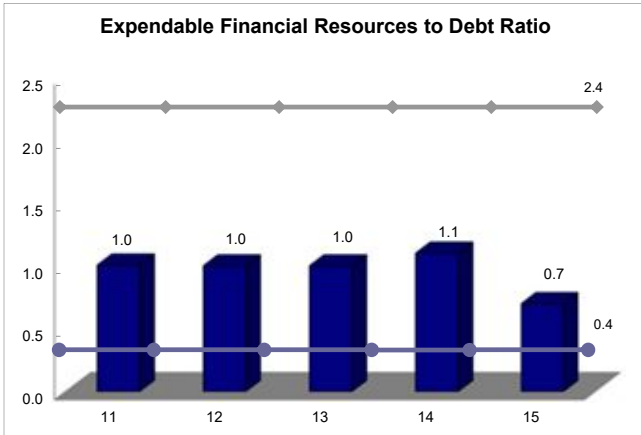
KEY INDICATORS OF EXPENSES
ACTUAL 2012 THROUGH 2015
PROJECTED 2016
YEAR-TO-DATE 2015 AND 2016 FROM JULY MONTHLY FINANCIAL REPORT



KEY INDICATORS OF RESERVES
ACTUAL 2011 THROUGH 2015
PROJECTED 2016
YEAR-TO-DATE 2015 AND 2016 FROM JULY MONTHLY FINANCIAL REPORT



KEY INDICATORS OF CAPITAL NEEDS AND CAPACITY 2011 THROUGH 2015

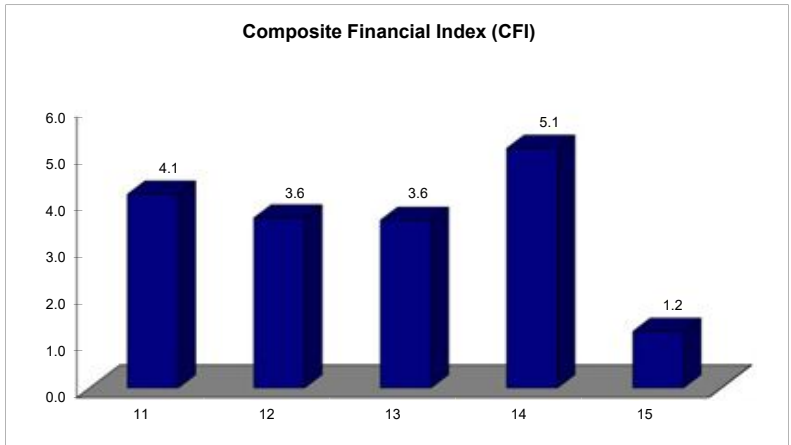


*For FY 2011 through 2014 the source of backlog data is the Facilities' Renewal Model (FRRM) and those systems that have exceeded their Life Cycle Age. Beginning in FY 2015, the deferred maintenance data is taken from the new annual BOR Campus Condition Report and the facilities' executives assessment of those systems that have failed or will fail within the current budget cycle (within one year).

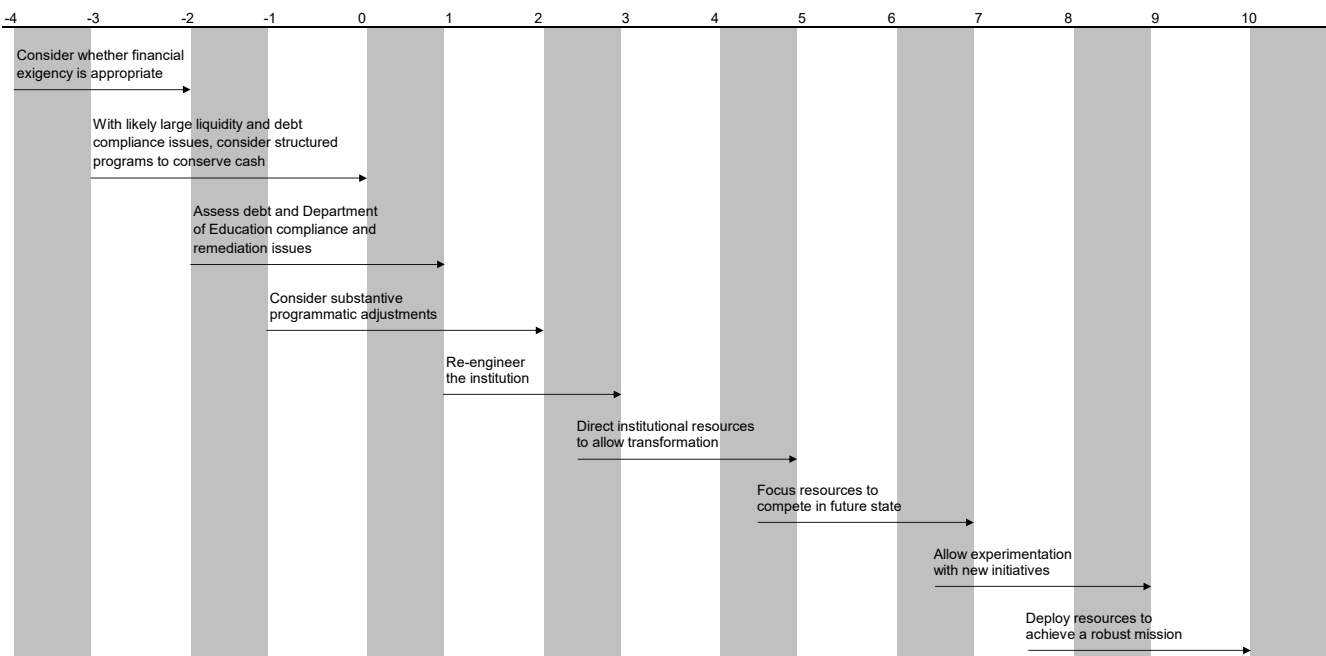
Note: Line between FY 2014 and 2015 indicates a change in the source data.

Note: Line between FY 2014 and 2015 indicates a change in the source data.

**KEY INDICATORS OF FINANCIAL HEALTH
2011 THROUGH 2015**

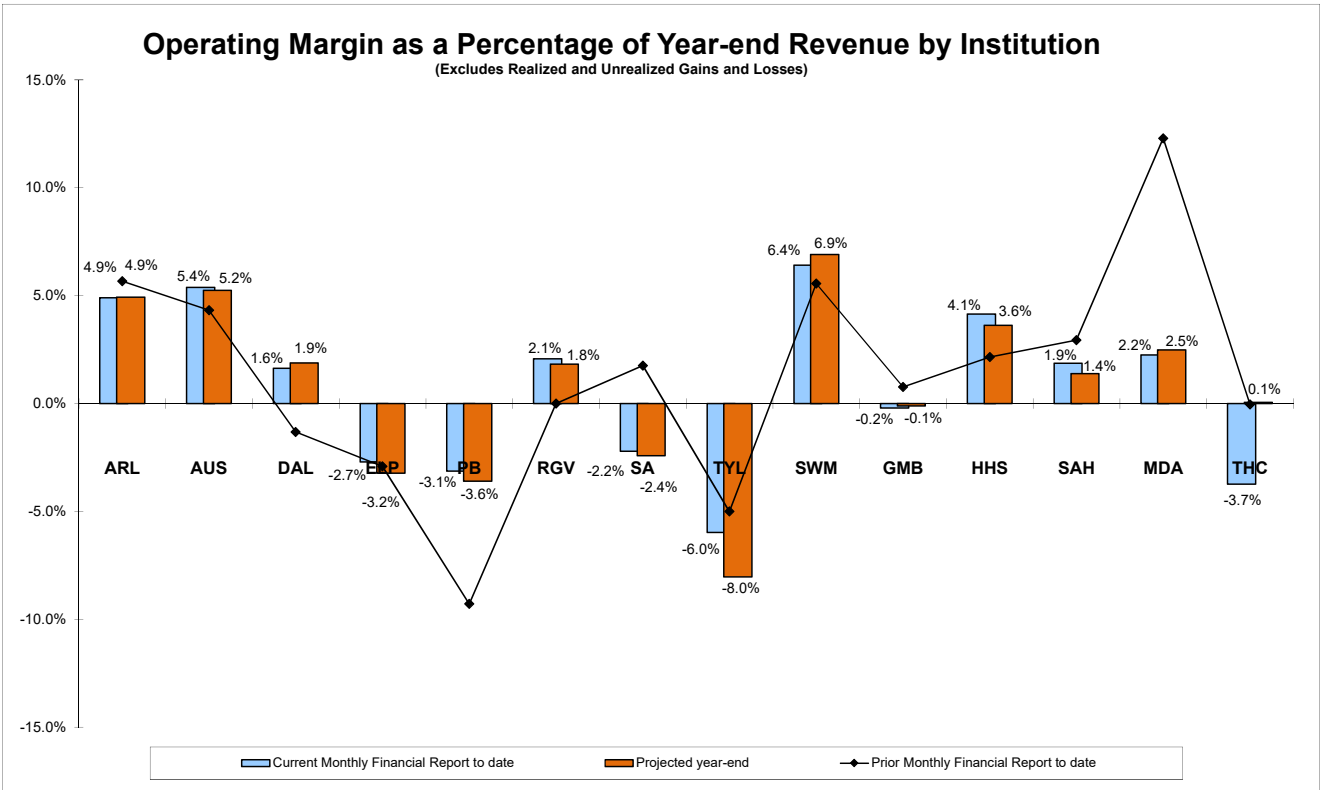
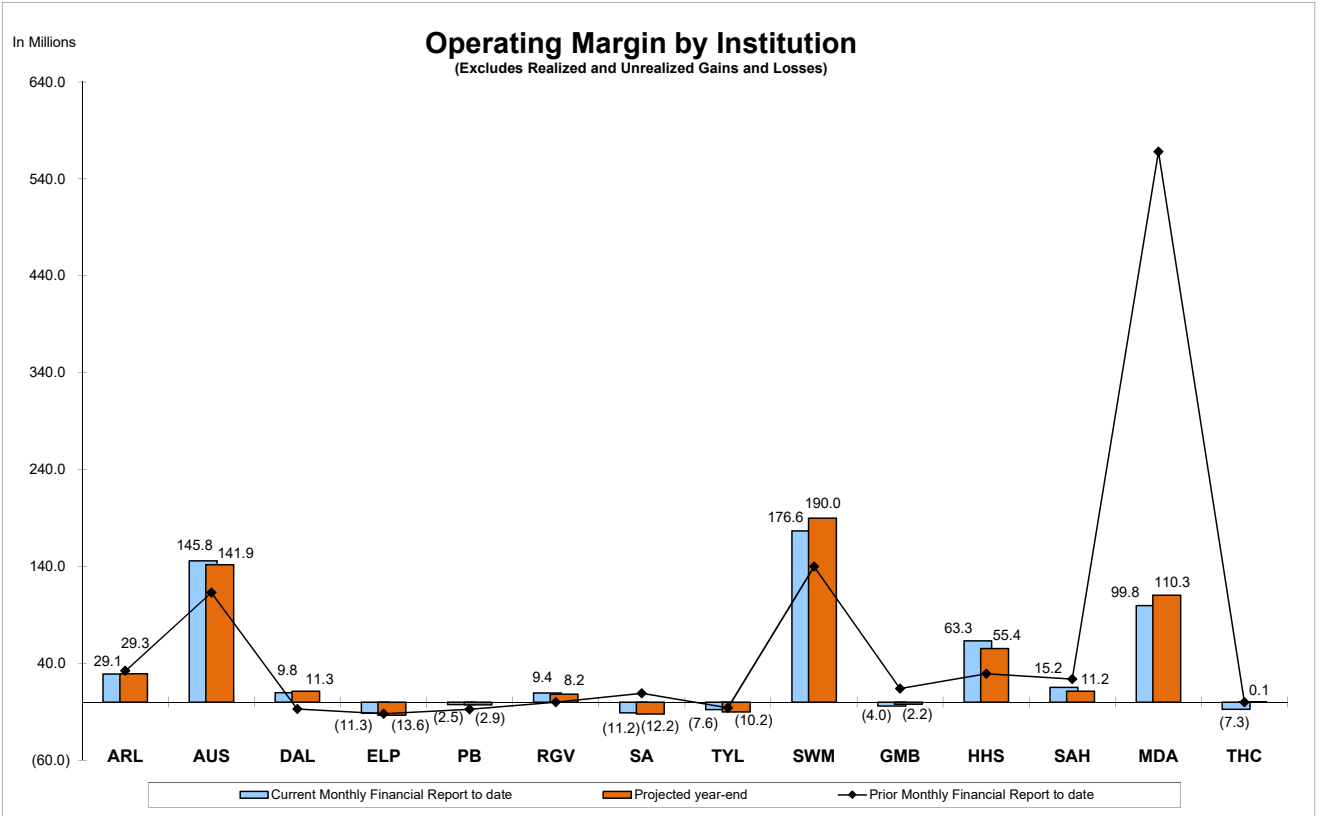


Scale for Charting CFI Performance



Source: Strategic Financial Analysis for Higher Education, Seventh Edition

KEY INDICATORS OF RESERVES YEAR-TO-DATE 2015 AND 2016 FROM JULY MONTHLY FINANCIAL REPORT PROJECTED 2016 YEAR-END MARGIN



3. Item Deferred

4. **U. T. System Board of Regents: The University of Texas Investment Management Company (UTIMCO) Performance Summary Report and Investment Reports for the year and quarter ended August 31, 2016**

REPORT

The August 31, 2016 UTIMCO Performance Summary Report is set forth on [Page 108](#).

The Investment Reports for the fiscal year and quarter ended August 31, 2016, are set forth on [Pages 109 - 112](#).

Item I on [Page 109](#) reports activity for the Permanent University Fund (PUF) investments. The PUF's net investment return for the fiscal year was 3.94%. The PUF's net asset value increased by \$390 million since the beginning of the year to \$17,880 million. The increase was due to \$512 million PUF Lands receipts, plus a net investment return of \$651 million, less the annual distribution to the Available University Fund (AUF) of \$773 million.

Item II on [Page 110](#) reports activity for the General Endowment Fund (GEF) investments. The GEF's net investment return for the fiscal year was 4.03%. The GEF's net asset value increased by \$263 million during the fiscal year to \$8,500 million.

Item III on [Page 111](#) reports activity for the Intermediate Term Fund (ITF). The ITF's net investment return for the fiscal year was 3.27% versus its composite benchmark return of 4.24%. The net asset value increased during the fiscal year to \$7,836 million due to net contributions of \$761 million, less net investment return of \$258 million and distributions of \$220 million.

All exposures were within their asset class and investment type ranges. Liquidity was within policy.

Item IV on [Page 112](#) presents book and market values of cash, debt, equity, and other securities held in funds outside of internal investment pools. Total cash and equivalents, consisting primarily of institutional operating funds held in the Dreyfus and Fidelity money market fund, increased by \$239 million to \$2,518 million during the three months since the last reporting period. Market values for the remaining asset types were debt securities: \$20 million versus \$20 million at the beginning of the period; equities: \$74 million versus \$78 million at the beginning of the period; and other investments: \$12 million versus \$5 million at the beginning of the period.

UTIMCO Performance Summary
August 31, 2016

	Net Asset Value 8/31/2016 (in Millions)	Periods Ended August 31, 2016 (Returns for Periods Longer Than One Year are Annualized)							
		Short Term		Year to Date		Historic Returns			
		<u>1 Mo</u>	<u>3 Mos</u>	<u>Fiscal</u>	<u>Calendar</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>10 Yrs</u>
<u>ENDOWMENT FUNDS</u>									
Permanent University Fund	\$ 17,880	1.97%	4.04%	3.94%	5.37%	3.94%	6.31%	6.17%	5.42%
Permanent Health Fund	1,065								
Long Term Fund	<u>7,435</u>								
General Endowment Fund	<u>8,500</u>	1.85%	4.12%	4.03%	5.46%	4.03%	6.45%	6.30%	5.55%
Separately Invested Funds	<u>177</u>								
Total Endowment Funds	<u>26,557</u>								
<u>OPERATING FUNDS</u>									
Intermediate Term Fund	7,836	0.34%	3.08%	3.27%	4.80%	3.27%	3.33%	3.58%	4.17%
Short Term Fund and Debt Proceeds Fund	<u>2,448</u>								
Total Operating Funds	<u>10,284</u>								
Total Assets Under Management	<u>\$ 36,841</u>								

Footnote available upon request

UTIMCO 10/5/2016

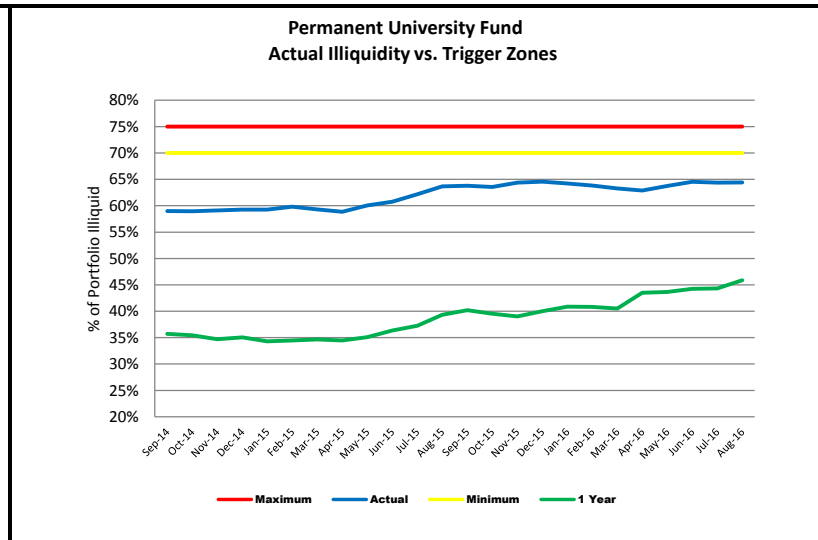
I. PERMANENT UNIVERSITY FUND
Investment Reports for Periods Ended August 31, 2016

Prepared in accordance with Texas Education Code Sec. 51.0032

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
More Correlated and Constrained:							
Investment Grade	7.5%	6.5%	4.49%	8.79%	-0.03%	-0.27%	-0.30%
Credit-Related	0.1%	0.0%	17.69%	10.13%	0.00%	0.00%	0.00%
Real Estate	1.6%	2.5%	7.22%	17.33%	-0.04%	-0.23%	-0.27%
Natural Resources	6.3%	7.5%	5.73%	4.61%	-0.12%	0.14%	0.02%
Developed Country	12.4%	14.0%	0.41%	6.68%	-0.04%	-0.85%	-0.89%
Emerging Markets	<u>9.7%</u>	<u>9.5%</u>	<u>12.47%</u>	<u>11.83%</u>	<u>-0.08%</u>	<u>0.01%</u>	<u>-0.07%</u>
Total More Correlated and Constrained	37.6%	40.0%	5.22%	8.82%	-0.31%	-1.20%	-1.51%
Less Correlated and Constrained	26.2%	29.0%	-0.82%	-1.45%	-0.05%	0.30%	0.25%
Private Investments	<u>36.2%</u>	<u>31.0%</u>	<u>6.43%</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>3.94%</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

n/a - not available

	Summary of Capital Flows		
(\$ millions)	Fiscal Year Ended August 31, 2015	Quarter Ended August 31, 2016	Fiscal Year Ended August 31, 2016
Beginning Net Assets	\$17,365	\$17,432	\$17,490
PUF Lands Receipts	807	150	512
Investment Return (Net of Expenses)	82	685	651
Distributions to AUF	(764)	(387)	(773)
Ending Net Assets	<u>\$17,490</u>	<u>\$17,880</u>	<u>\$17,880</u>



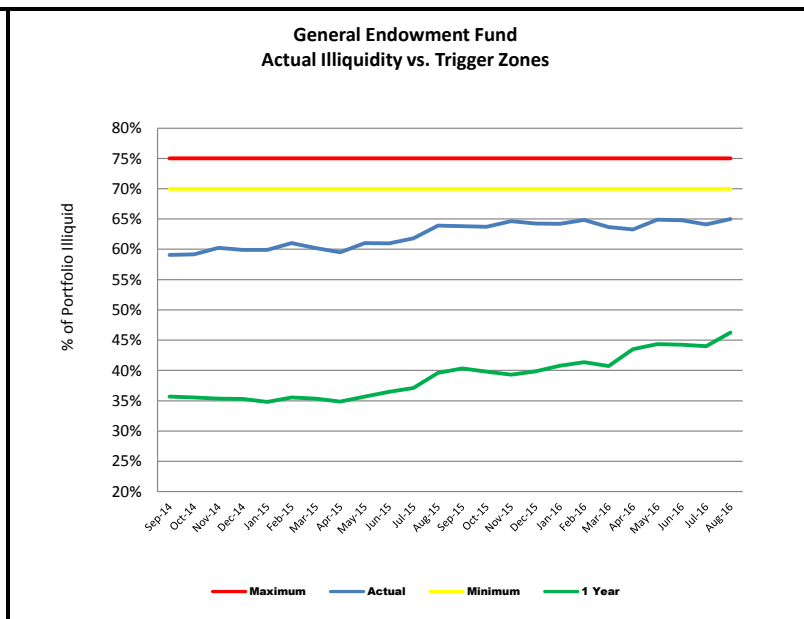
II. GENERAL ENDOWMENT FUND

Investment Reports for Periods Ended August 31, 2016

Prepared in accordance with *Texas Education Code Sec. 51.0032*

	Fiscal Year to Date						
	Asset Allocation		Returns		Value Added		
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total
More Correlated and Constrained:							
Investment Grade	6.7%	6.5%	5.85%	8.79%	-0.01%	-0.18%	-0.19%
Credit-Related	0.1%	0.0%	17.69%	10.13%	0.00%	0.00%	0.00%
Real Estate	1.6%	2.5%	7.27%	17.33%	-0.02%	-0.23%	-0.25%
Natural Resources	6.3%	7.5%	5.78%	4.61%	-0.14%	0.14%	0.00%
Developed Country	12.5%	14.0%	0.61%	6.68%	-0.07%	-0.79%	-0.86%
Emerging Markets	<u>9.8%</u>	<u>9.5%</u>	<u>12.39%</u>	<u>11.83%</u>	<u>-0.05%</u>	<u>0.00%</u>	<u>-0.05%</u>
Total More Correlated and Constrained	37.0%	40.0%	5.56%	8.82%	-0.29%	-1.06%	-1.35%
Less Correlated and Constrained	26.4%	29.0%	-0.82%	-1.45%	-0.06%	0.27%	0.21%
Private Investments	<u>36.6%</u>	<u>31.0%</u>	<u>6.41%</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>4.03%</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>

Summary of Capital Flows			
(\$ millions)	Fiscal Year Ended August 31, 2015	Quarter Ended August 31, 2016	Fiscal Year Ended August 31, 2016
Beginning Net Assets	\$8,325	\$8,192	\$8,237
Contributions	230	86	361
Withdrawals	(43)	(12)	(21)
Distributions	(366)	(105)	(411)
Investment Return (Net of Expenses)	<u>91</u>	<u>339</u>	<u>334</u>
Ending Net Assets	<u>\$8,237</u>	<u>\$8,500</u>	<u>\$8,500</u>

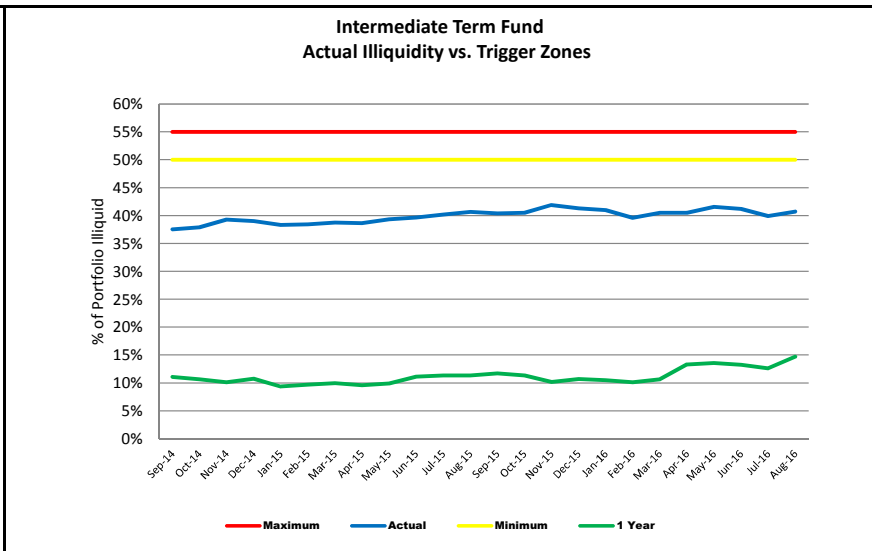


III. INTERMEDIATE TERM FUND Investment Reports for Periods Ended August 31, 2016

Prepared in accordance with Texas Education Code Sec. 51.0032

	Fiscal Year to Date							
	Asset Allocation		Returns		Value Added			
	Actual	Policy	Portfolio	Policy Benchmark	Tactical Allocation	Active Management	Total	
More Correlated and Constrained:								
Investment Grade	30.2%	30.0%	7.38%	8.79%	0.05%	-0.42%	-0.37%	
Credit-Related	0.0%	0.0%	0.00%	0.00%	0.00%	0.00%	0.00%	
Real Estate	2.6%	3.0%	7.63%	17.33%	-0.02%	-0.25%	-0.27%	
Natural Resources	5.7%	7.0%	5.77%	4.61%	-0.17%	0.11%	-0.06%	
Developed Country	9.2%	9.0%	0.54%	6.68%	0.01%	-0.54%	-0.53%	
Emerging Markets	<u>6.6%</u>	<u>6.0%</u>	<u>12.56%</u>	<u>11.83%</u>	<u>0.03%</u>	<u>0.01%</u>	<u>0.04%</u>	
Total More Correlated and Constrained	54.3%	55.0%	6.79%	9.01%	-0.10%	-1.09%	-1.19%	
Less Correlated and Constrained	45.7%	45.0%	-0.85%	-1.45%	-0.29%	0.51%	0.22%	
Private Investments	0.0%	0.0%	0.00%	0.00%	0.00%	0.00%	0.00%	
Total	<u>100.0%</u>	<u>100.0%</u>	<u>3.27%</u>	<u>4.24%</u>	<u>-0.39%</u>	<u>-0.58%</u>	<u>-0.97%</u>	

<u>Summary of Capital Flows</u>			
(\$ millions)	Fiscal Year Ended August 31, 2015	Quarter Ended August 31, 2016	Fiscal Year Ended August 31, 2016
Beginning Net Assets	\$6,665	\$7,504	\$7,037
Contributions	1,448	176	1,009
Withdrawals	(627)	(17)	(248)
Distributions	(210)	(57)	(220)
Investment Return (Net of Expenses)	<u>(239)</u>	<u>230</u>	<u>258</u>
Ending Net Assets	<u>\$7,037</u>	<u>\$7,836</u>	<u>\$7,836</u>



IV. SEPARATELY INVESTED ASSETS
Summary Investment Report at August 31, 2016
 Report prepared in accordance with *Texas Education Code Sec. 51.0032*

ASSET TYPES	(\$ thousands)															
	FUND TYPE															
	CURRENT PURPOSE DESIGNATED		RESTRICTED		ENDOWMENT & SIMILAR FUNDS		ANNUITY & LIFE INCOME FUNDS		AGENCY FUNDS		TOTAL EXCLUDING OPERATING FUNDS		OPERATING FUNDS (DEBT PROCEEDS AND SHORT TERM FUND)		TOTAL	
BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	BOOK	MARKET	
Cash & Equivalents:																
Beginning value 05/31/16	1	1	12,181	12,181	63,084	63,084	1,428	1,428	1,091	1,091	77,785	77,785	2,201,424	2,201,424	2,279,209	2,279,209
Increase/(Decrease)	(1)	(1)	(7,505)	(7,504)	(2,750)	(2,750)	1,404	1,404	861	861	(7,991)	(7,990)	246,426	246,426	238,435	238,436
Ending value 08/31/16	-	-	4,676	4,677	60,334	60,334	2,832	2,832	1,952	1,952	69,794	69,795	2,447,850	2,447,850	2,517,644	2,517,645
Debt Securities:																
Beginning value 05/31/16	-	-	7	6	11,441	11,686	9,150	8,737	-	-	20,598	20,429	-	-	20,598	20,429
Increase/(Decrease)	-	-	-	-	(558)	(469)	(100)	27	-	-	(658)	(442)	-	-	(658)	(442)
Ending value 08/31/16	-	-	7	6	10,883	11,217	9,050	8,764	-	-	19,940	19,987	-	-	19,940	19,987
Equity Securities:																
Beginning value 05/31/16	4,175	14,577	609	614	41,875	50,244	12,519	12,329	-	-	59,178	77,764	-	-	59,178	77,764
Increase/(Decrease)	(4,175)	(14,577)	(448)	1,707	7,953	9,392	(387)	114	-	-	2,943	(3,364)	-	-	2,943	(3,364)
Ending value 08/31/16	-	-	161	2,321	49,828	59,636	12,132	12,443	-	-	62,121	74,400	-	-	62,121	74,400
Other:																
Beginning value 05/31/16	-	-	4,895	4,897	-	-	5	5	376	376	5,276	5,278	-	-	5,276	5,278
Increase/(Decrease)	-	-	1,367	1,365	2	2	(2)	(2)	5,040	5,040	6,407	6,405	-	-	6,407	6,405
Ending value 08/31/16	-	-	6,262	6,262	2	2	3	3	5,416	5,416	11,683	11,683	-	-	11,683	11,683
Total Assets:																
Beginning value 05/31/16	4,176	14,578	17,692	17,698	116,400	125,014	23,102	22,499	1,467	1,467	162,837	181,256	2,201,424	2,201,424	2,364,261	2,382,680
Increase/(Decrease)	(4,176)	(14,578)	(6,586)	(4,432)	4,647	6,175	915	1,543	5,901	5,901	701	(5,391)	246,426	246,426	247,127	241,035
Ending value 08/31/16	-	-	11,106	13,266	121,047	131,189	24,017	24,042	7,368	7,368	163,538	175,865	2,447,850	2,447,850	2,611,388	2,623,715

Details of individual assets by account furnished upon request.

5. U. T. System: Report and discussion on Public Private Partnership Financing

REPORT/DISCUSSION

Dr. Scott C. Kelley, Executive Vice Chancellor for Business Affairs, will lead a discussion on Public Private Partnership Financing using the PowerPoint presentation on the following pages.

Public Private Partnership Financing at U.T. System

Dr. Scott Kelley, Executive Vice Chancellor for Business Affairs

U. T. System Board of Regents' Meeting
Finance and Planning Committee
November 2016



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Capital Improvement Program (CIP)

- The term “Public Private Partnership” (P3) means a contract between a governmental entity and a private party in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.
- Per the *Texas Education Code*, the U. T. System Board of Regents has authority to build and operate facilities directly or through private entities and to lease land and improvements to or from private entities.



Capital Improvement Program (CIP) (cont.)

The CIP is

- managed by the U. T. System Office of Facilities Planning and Construction, Regents' Rule 80301;
- a six-year projection of major new projects developed under each institution's strategic planning process;
- consists of 69 projects at all U. T. System institutions;
- has an aggregate total project cost (TPC) of \$6.32 billion; and
- is 59.0% funded with debt.



CIP Funding Status

Funding Source	CIP TPC (millions)	% of Total
<u>Bond Proceeds</u>		
Permanent University Fund (PUF) Bonds	\$ 483.9	7.6%
Revenue Financing System (RFS) Bonds	\$2,172.9	34.4%
Tuition Revenue Bonds (TRBs)	<u>\$1,072.6</u>	<u>17.0%</u>
Subtotal Bond Proceeds	\$3,729.5	59.0%
<u>Institutional Funds</u>		
Available University Fund (AUF)	\$ 36.9	0.6%
Cash Balances	\$ 401.0	6.3%
FEMA and Insurance Claims	\$ 575.2	9.1%
General Revenue	\$ 102.0	1.6%
Gifts and Grants	\$ 601.1	9.5%
Hospital Revenues	<u>\$ 876.6</u>	<u>13.9%</u>
Subtotal Institutional Funds	\$2,592.8	41.0%
CIP Total Funding Sources	\$6,322.2	100.0%



PUF Constitutional Debt Capacity

- The Texas Constitution limits the amount of PUF debt that can be issued by the U. T. System Board of Regents to an amount not to exceed 20% of the cost value of PUF investments

PUF Book Value as of August 31, 2016	\$15,170,775,299
U. T. Constitutional Debt Limit (20% of PUF Book Value)	3,034,155,060
U. T. PUF Debt Outstanding as of September 1, 2016	<u>(2,568,505,000)</u>
Remaining Constitutional U. T. PUF Debt Capacity	465,650,060
Authorized but Unissued PUF Debt as of August 31, 2016	719,610,414
Additional PUF expected to be allocated in November 2016	397,800,000



CIP Debt Financing

- Debt is managed by the U. T. System Office of Finance, Regents' Rule 80305.
- Each of the U. T. System debt programs are rated AAA/Aaa/AAA.
- Debt is issued through two primary programs
 - RFS bonds (includes TRBs)
 - PUF bonds
- All projects requesting debt financing must meet a minimum 1.30x Debt Service Coverage, consistent with private industry standards.



P3 Projects at the U. T. System

- U. T. System institutions have executed numerous P3 projects.
- Examples include student housing at various campuses, research buildings, a fitness center, and specialized clinical facilities.



Pros and Cons of P3 Projects

Pros of P3 Projects	Cons of P3 Projects
<ul style="list-style-type: none"> • Potentially off-balance sheet • Potentially lower TPC • Preservation of capital • Faster time to completion • Reduced bureaucracy 	<ul style="list-style-type: none"> • Higher cost of financing • Incurrence of property taxes • Projects not built to state standards • Projects not required to follow state procurement, Historically Underutilized Business (HUB), and prevailing wage laws • Misalignment of interests • Less institutional control



Situations Conducive to P3 Projects

- Projects that are off campus or sufficiently removed from the main campus.
- Projects that are not limited to student or faculty use (e.g., shared research space).
- Projects that are not critical to the success of the campus mission (e.g., administrative office space).
- Projects with large gifts or donations of land and specific donor requirements.
- Projects with complex or unusual characteristics.
- Projects that require specialized expertise in construction and/or operation.
- Projects that are expected to generate revenue for the university.



6. U. T. System Board of Regents: Discussion of matters related to University Lands

REPORT/DISCUSSION

Regent Cranberg, Chairman of the University Lands Advisory Board, and Mr. Mark Houser, Chief Executive Officer - University Lands, will report to the Board on matters related to University Lands.