FEBRUARY 19, 2025

THE UNIVERSITY OF TEXAS SYSTEM

Debt Overview

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.

Revenue Financing System Bonds

Security: Security Lien on Pledged Revenues

Rating: Aaa/AAA/AAA
$8.9 billion outstanding (1)

Permanent University Fund Bonds

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

Rating: Aaa/AAA/AAA
$4.0 billion outstanding (1)

The University of Texas System Total Outstanding Debt $12.9 billion

(1) As of February 19, 2025. Excludes debt separately issued by Stephen F. Austin State University.

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.)

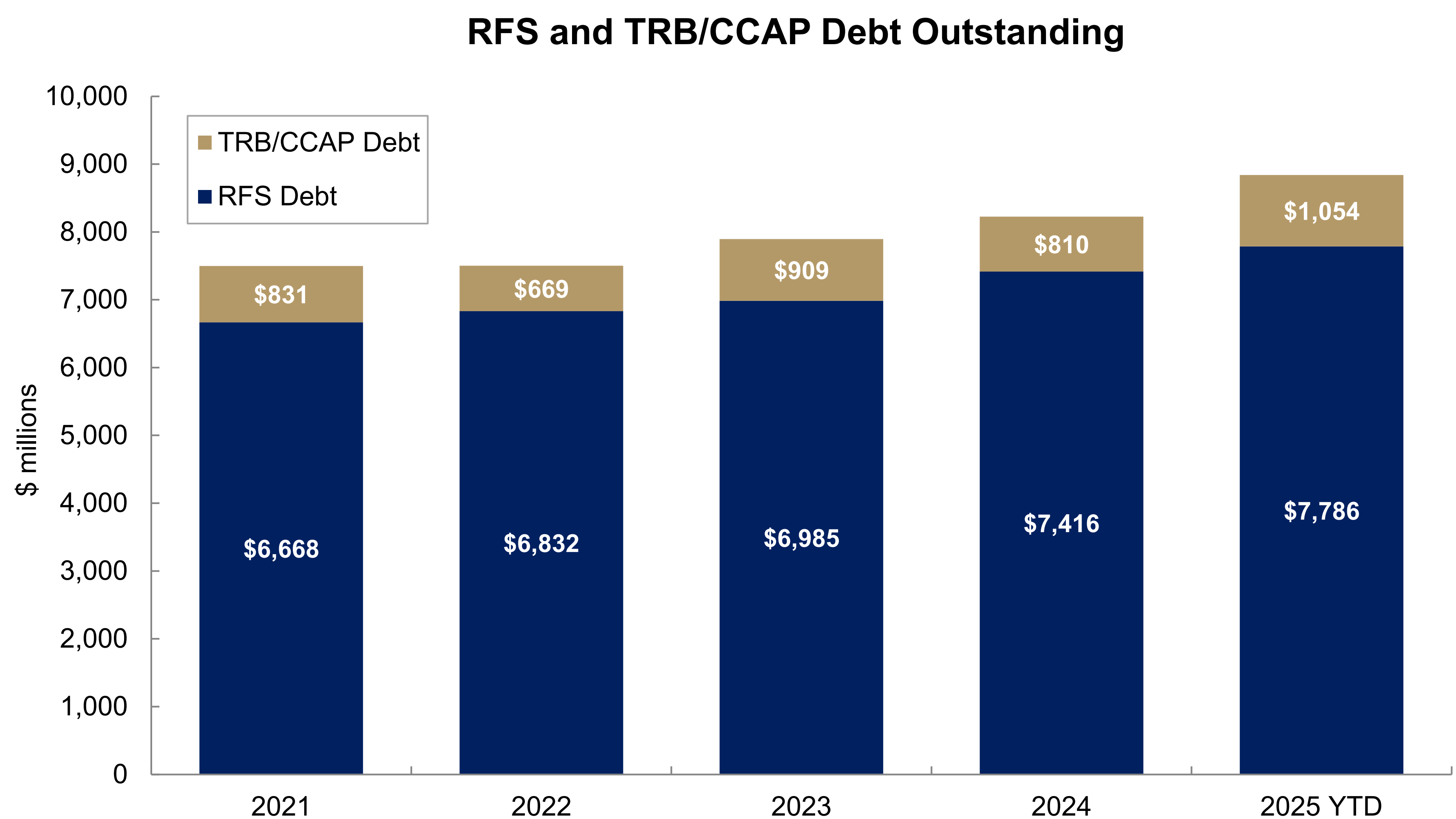
- Revenue Financing System (RFS) debt is often issued for revenue-generating projects, such as student housing, parking facilities, and auxiliary projects.
- RFS debt capacity is largely determined by an institution's ability to meet at least two of three minimum debt ratio standards. For projects that are self-supporting (i.e., revenue-generating), a 1.3x project-level debt service coverage is generally required.
- 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.
- In general, academic institutions have limited additional RFS capacity with health-related institutions having generally more RFS debt capacity.
- Tuition revenue bond (TRB)/Capital Construction Assistance Projects (CCAP) projects are also financed under the Revenue Financing System. TRB/CCAP debt is dilutive to the System's debt coverage ratios.

Tuition Revenue Bonds/CCAPs

- TRBs/CCAPs are specifically authorized by the Legislature under Chapter 55 of the Education Code.
- Despite the name, TRB/CCAP 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/CCAPs.
- TRBs/CCAPs 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/CCAP debt service with general revenue.
- While not a legal obligation, the State has been reimbursing TRB/CCAP debt service since 1971.
- The entire reason TRBs/CCAP 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/CCAP projects and funding the associated debt service with general revenue.
- Without the general revenue debt service appropriations, there is no need for TRB/CCAP authorizations since higher education institutions already have authorization to issue revenue bonds.

RFS Debt Outstanding

- Over the last five years, aggregate RFS debt outstanding has grown by over $1.5 billion, from $7.3 billion to $8.8 billion currently outstanding.



(1) As of February 19, 2025. Excludes debt separately issued by Stephen F. Austin State University.

Moody's Texas Public University Ratings

- Most Texas public colleges and universities are rated in the Aa category.
- As one of only three public universities in the US to be rated triple-A by the three major credit rating agencies, the System is able to access the capital markets with the most favorable terms and the lowest rates. The credit rating, however, restrains the amount of debt that can be outstanding.

Moody's Public College and University Ratings by Level (Texas Issuers)[1]		
Aaa	**Aa1**	
University of Texas System	Texas Tech University System	**A1 - NA**
Texas A&M System		**A2 - NA**
	Aa2	**A3 - NA**
	University of North Texas System	
	University of Houston System	**Baa1 - NA**
	Texas State University System	**Baa2 - NA**
	Aa3	**Baa3**
	Texas Woman's University	Texas Southern University

[1] Source: Moody's Municipal Financial Ratio Analysis as of 2/14/25 (based on FY24 financial data).

RFS Debt Capacity Standards Comparison

- While the goal of the System is to maintain the Aaa credit rating, the minimum credit standards to which U.T. institutions are held approximate an A credit rating (4-5 notches below Aaa standards).
- The System's overall credit ratios are bolstered by the System's largest and strongest institutions.

U.T. System Office of Finance Standards & Moody's Higher-Education Medians[1]						
Aaa	**Aa1**	**Aa2**	**Aa3**	**A1**	**A2**	**A3**
Spendable Cash & Investments to Debt (x)						
3.31	2.76	1.90	1.54	1.62	0.98	1.04
Greater than or equal to 75%					75%	
Debt Service-to-Operations (%)						
2.8	2.5	4.0	4.3	4.1	4.6	5.0
Less than or equal to 5.0%						5%
Scorecard Rating						
1.0	2.0	3.0	4.0	5.0	6.0	7.0
Less than or equal to 6.0					6.0	

Moody's Healthcare Medians[2]			
Aa	**A**	**Baa**	**<Baa**
Unrestricted Cash & Investments to Debt (x)			
261.3	153.9	141.0	86.7
	1.5x		
Operating Cash Flow Margin (%)			
7.0	5.4	2.4	-2.3

[1] Source: Moody's Investors Service Median Report, published June 6, 2024 (based on FY23 financial data).
[2] Source: Moody's Investors Service Median Report, published March 28, 2024 (based on FY23 financial data).

RFS Debt Capacity

- In order to maintain the System's credit rating, U.T. institutions are required to meet minimum credit standards. The Office of Finance primarily utilizes a quantitative approach by using three financial ratios commonly used by the credit rating agencies in determining an institution's debt capacity:
  - Balance Sheet Leverage:
    - [Academic]: Spendable Cash & Investments to Total Debt of at least 0.75x
    - [Healthcare]: Unrestricted Cash & Investments to Total Debt of at least 1.50x
  - Debt Service to Operations ratio not greater than 5.0%; and
  - UT Scorecard Rating not greater than 6.0

- Debt capacity is not purely quantitative, so other aspects of an institution's credit quality may also be taken into consideration when determining debt capacity.

- Although capacity is somewhat constrained for the System based on current levels of debt, there is a natural increase in debt capacity over time as debt is paid down, as operating levels increase, and as the balance sheet increases.

[1] Reflects whether the institution generally meets or exceeds two of the three minimum credit ratios based on each institution's six-year forecast. Does not reflect debt capacity associated with self-supporting projects.

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.
- 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 not be used for student housing, intercollegiate athletics, or auxiliary enterprises.
- 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

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

PERMANENT UNIVERSITY FUND (PUF) →

Investments
($38.0 billion market value as of 01/31/25)

↓

AVAILABLE UNIVERSITY FUND (AUF)

2/3rds to U.T. System	**1/3rd to A&M 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	**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 U.T. Austin and the U.T. System for specified purposes.	**Residual AUF** Residual AUF income constitutionally appropriated to the A&M System for specified purposes.