

EXECUTIVE SUMMARY

The Analysis of Financial Condition (AFC) was performed by using financial information found in the Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position. In addition, debt and interest expense are allocated to the individual institutions. In fiscal year 2019, the rating methodology was revised to align elements that are pertinent to Academic institutions independent of the factors used to analyze Not-For-Profit Healthcare institutions. All ratios calculated are commonly used by bond rating agencies, public accounting, and consulting firms.

The analysis includes a scorecard that uses broad factors with sub-categories of quantitative and qualitative characteristics as demonstrated in the grid below. A five-year historical view is provided for each sub-category for all institutions.

| Broad Factors for Academic Institutions | Broad Factors for Healthcare Institutions |
|---|---|
| Market Profile <ul style="list-style-type: none"> <input type="checkbox"/> Operating Revenue <input type="checkbox"/> Annual Change in Operating Revenues <input type="checkbox"/> Strategic Positioning | Market Position <ul style="list-style-type: none"> <input type="checkbox"/> Operating Revenue <input type="checkbox"/> 3-year Operating Revenue <input type="checkbox"/> Market Landscape |
| Operating Performance <ul style="list-style-type: none"> <input type="checkbox"/> Operating Cash Flow Margin <input type="checkbox"/> Maximum Single Revenue Contribution | Operating Performance & Liquidity <ul style="list-style-type: none"> <input type="checkbox"/> 3-year Average Operating Cash Flow Margin <input type="checkbox"/> Gross Revenue of Payor Mix <input type="checkbox"/> Cash on Hand <input type="checkbox"/> Financial Management & Reinvestment |
| Wealth & Liquidity <ul style="list-style-type: none"> <input type="checkbox"/> Total Cash & Investments <input type="checkbox"/> Spendable Cash & Investments to Operating Expenses <input type="checkbox"/> Cash on Hand | Leverage <ul style="list-style-type: none"> <input type="checkbox"/> Unrestricted Cash & Investments to Total Debt <input type="checkbox"/> Total Debt to Cash Flow |
| Leverage <ul style="list-style-type: none"> <input type="checkbox"/> Spendable Cash & Investments to Total Debt <input type="checkbox"/> Total Debt to Cash Flow | |

In addition to the scorecard factors, a five-year historical analysis is provided for all institutions on the following ratios:

- Operating Revenue
- Annual Operating Margin
- Spendable Cash to Operating Expenses for Academic Institutions
- Spendable Cash & Investments to Total Debt for Academic Institutions
- Unrestricted Cash & Investments to Total Debt for Healthcare Institutions

The results of all calculations, the strategic positioning for academic institutions, and market landscape for health institutions, was collectively reviewed and discussed with executive vice chancellors and chief business officers at each institution to determine an annual financial evaluation.

The table on the following page provides a summary of the overall scorecard rating for all institutions.



| Institution | FY 20 Overall Scorecard Rating |
|--|--------------------------------|
| Academics | |
| The University of Texas at Arlington | |
| The University of Texas at Austin | |
| The University of Texas at Dallas | |
| The University of Texas at El Paso | |
| The University of Texas Permian Basin | |
| The University of Texas Rio Grande Valley | |
| The University of Texas San Antonio | Aa2 |
| The University of Texas at Tyler | |
| Healths | |
| The University of Texas Southwestern Medical Center | |
| The University of Texas Medical Branch at Galveston | |
| The University of Texas Health Science Center at Houston | |
| The University of Texas Health Science Center at San Antonio | |
| The University of Texas M. D. Anderson Cancer Center | |
| The University of Texas Health Science Center Tyler | |

| Scorecard Outcome | Aggregate Weighted Factor Score |
|-------------------|---------------------------------|
| Aaa | 1.5 |
| Aa1 | 1.5 - 2.5 |
| Aa2 | 2.5 - 3.5 |
| Aa3 | 3.5 - 4.5 |
| A1 | 4.5 - 5.5 |
| A2 | 5.5 - 6.5 |
| A3 | 6.5 - 7.5 |
| Baa1 | 7.5 - 8.5 |
| Baa2 | 8.5 - 9.5 |
| Baa3 | 9.5 - 10.5 |
| Ba1 | 10.5 - 11.5 |
| Ba2 | 11.5 - 12.5 |
| Ba3 | 12.5 - 13.5 |
| B1 | 13.5 - 14.5 |
| B2 | 14.5 - 15.5 |
| B3 | 15.5 - 16.5 |
| Caa1 and below | > 16.5 |

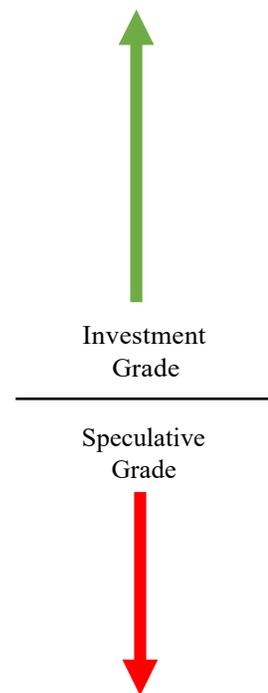


EXHIBIT 1

ACADEMIC INSTITUTIONS SCORECARD

| Broad Factors | Factor Weighting | Sub-Factors | Sub-Factor Weighting |
|-----------------------|------------------|---------------------------------|----------------------|
| Market Profile | 20% | Operating Revenue | 15% |
| | | Annual Change in Op. Revenue | 5% |
| Operating Performance | 30% | Operating Cash Flow Margin | 20% |
| | | Max Single Revenue Contribution | 10% |
| Wealth & Liquidity | 30% | Total Cash & Investments | 15% |
| | | Spendable C&I to Op. Expenses | 10% |
| | | Cash on Hand (days) | 5% |
| Leverage | 20% | Spendable C&I to Total Debt | 10% |
| | | Total Debt to Cash Flow | 10% |

After calculating each sub-factor, the outcomes are mapped to a broad rating typically used by bond rating agencies.



EXHIBIT 2

HEALTHCARE INSTITUTIONS SCORECARD

| Broad Factors | Factor Weighting | Sub-Factors | Sub-Factor Weighting |
|-----------------------------------|------------------|---------------------------------------|----------------------|
| Market Profile | 35% | Operating Revenue | 25% |
| | | 3-year Operating Revenue (CAGR) | 10% |
| Operating Performance & Liquidity | 35% | 3-year Avg Operating Cash Flow Margin | 15% |
| | | Gross Rev of Payor Mix (%) | 10% |
| | | Cash on Hand (days) | 10% |
| Leverage | 30% | Unrestricted Cash & Inv to Total Debt | 15% |
| | | Total Debt to Cash Flow | 15% |

After calculating each sub-factor, the outcomes are mapped to a broad rating typically used by bond rating agencies.



The University of Texas at San Antonio 2020 Summary of Financial Condition

Financial Condition: Satisfactory

EXECUTIVE SUMMARY

Highlights

General Overview

The University of Texas at San Antonio's (U. T. San Antonio) Incentivized Resource Management budget model guides university investment towards its future destinations of being a model for student success, a great public research university and an exemplar for strategic growth and innovative excellence. Like the rest of the academic environment, COVID-19 began to impact U. T. San Antonio in February 2020. While U. T. San Antonio enacted spending reductions and additional controls in spring 2020 that partially cushioned the negative impacts of COVID-19, fiscal year 2020 financial activity included the following measurable COVID-19 impacts:

- \$10.7 decreased revenue from housing, meals, and parking, including \$7.3 million credited to students for prorated spring services,
- \$2.0 million payment to an outside housing services provider in order for the students living there to receive prorated rent,
- \$2.0 million lower revenue from events, sales and services,
- \$2.0 million mandatory student fees for transportation and international education credited back to students for the summer semester,
- \$1.1 million additional costs for remote instruction delivery, and
- \$1.3 million COVID-19 related expenses.

These impacts were for fiscal year 2020 only and do not include the new costs related to campus activity, such as testing or contact tracing, or the known future impact of the state's budget cut. The spending controls reduced costs by a net \$8 million in areas such as travel and utilities. However, even including those cost reductions, COVID-19's financial impact was still significant to fiscal year 2020 activity and will be greater in fiscal year 2021 with a full academic year of providing primarily online instruction delivery and reduced campus services. In July 2020, U. T. San Antonio had a reduction in force related to permanent budget cuts for fiscal year 2021. The reduction in force impacted 243 personnel and eliminated 137 vacant positions.

U. T. San Antonio was awarded more than \$31 million in Higher Education Emergency Relief/Coronavirus Aid, Relief and Economic Security (CARES) Act funding; however, only \$4 million of that funding was allocated to cover the costs listed above. Instead, U. T. San Antonio prioritized direct payments to students. As of August 31, 2020, U. T. San Antonio spent 69% of its CARES funding on student payments, which is greater than the 50% required. Other expenditures covered include technology purchases and the partial reimbursement for housing refunds.



The University of Texas at San Antonio (continued)

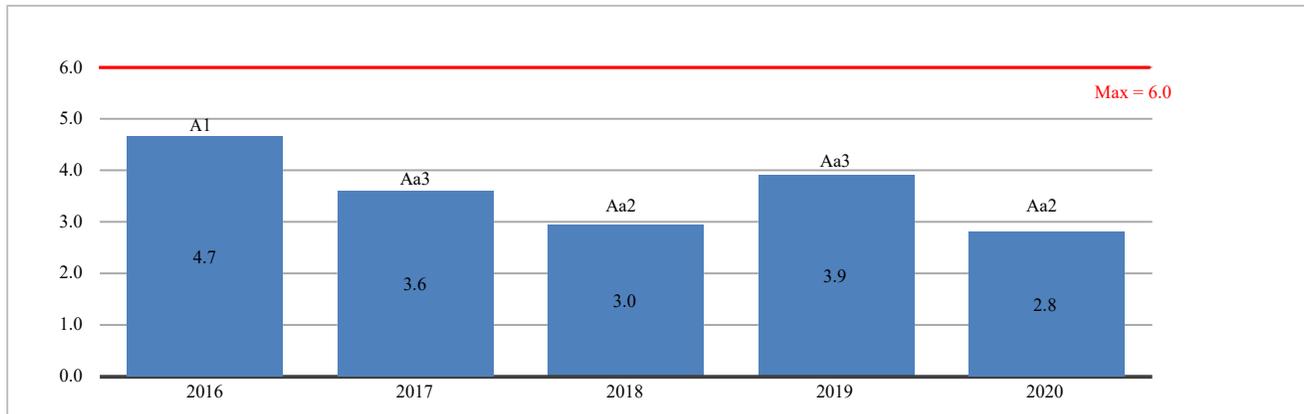
Observations

- U. T. San Antonio's operating margin loss was primarily attributed to the negative financial effects of COVID-19.
- Careful monitoring of cash balances, a partial sweep of departmental reserves and spending reductions helped U. T. San Antonio maintain its 0.8 spendable cash and investments to operating expense ratio and protect against future uncertainties.
- Beginning in fiscal year 2020 all faculty were separately budgeted, and expenses aligned into both the instruction and research functions based upon workload expectations. This change caused a decrease in instruction expense and an increase in research expense. Actual instruction and research activity did not change, but this expense allocation more appropriately reflects how the faculty spends their time.
- U. T. San Antonio's net tuition and fees included \$21.6 million of state exemptions, the largest of which was the Hazlewood program. Of that exemption amount, the state reimbursed U. T. San Antonio for \$1.8 million.
- U. T. San Antonio placed two new buildings in service. The Science and Engineering Building provides 140,000 gross square feet of classrooms, faculty offices, and science and engineering research and instructional laboratories, and is part of U. T. San Antonio's strategic plan for providing state-of-the-art space for Science, Technology, Engineering and Mathematics (STEM) education and research. The Student Success Center consolidates Academic Advising into one centrally located area of the Main Campus with 30,000 gross square feet of space.

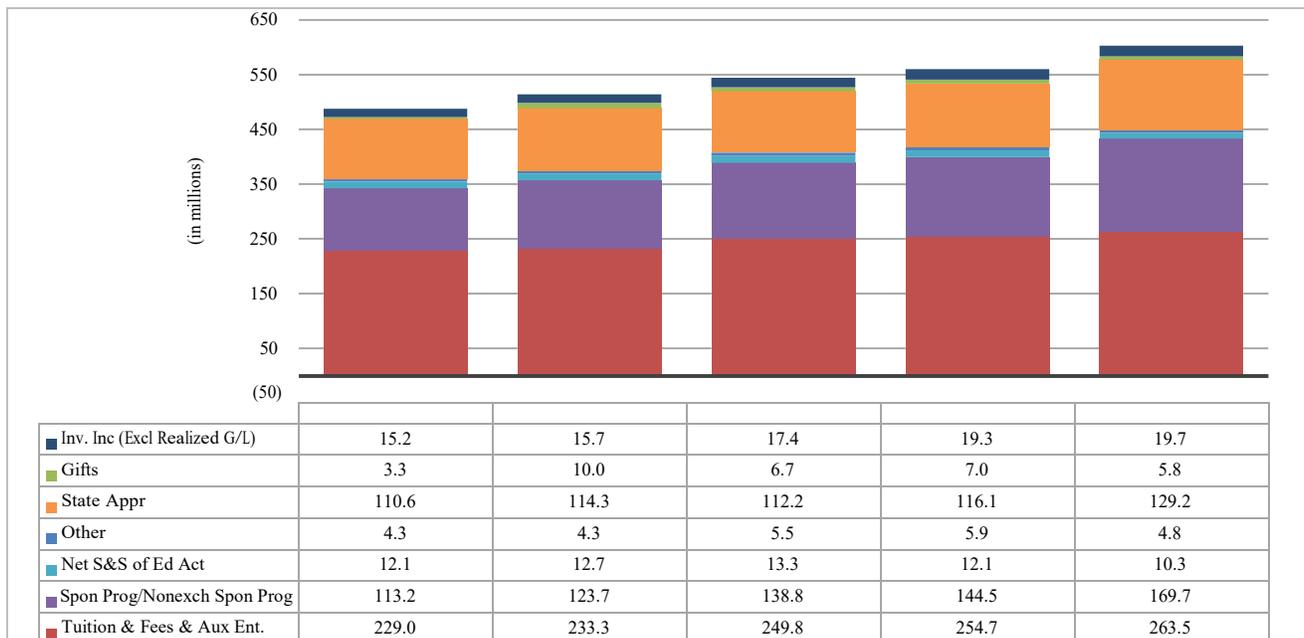


ANALYSIS OVERVIEW

1. Overall Scorecard Rating



2. Operating Revenues

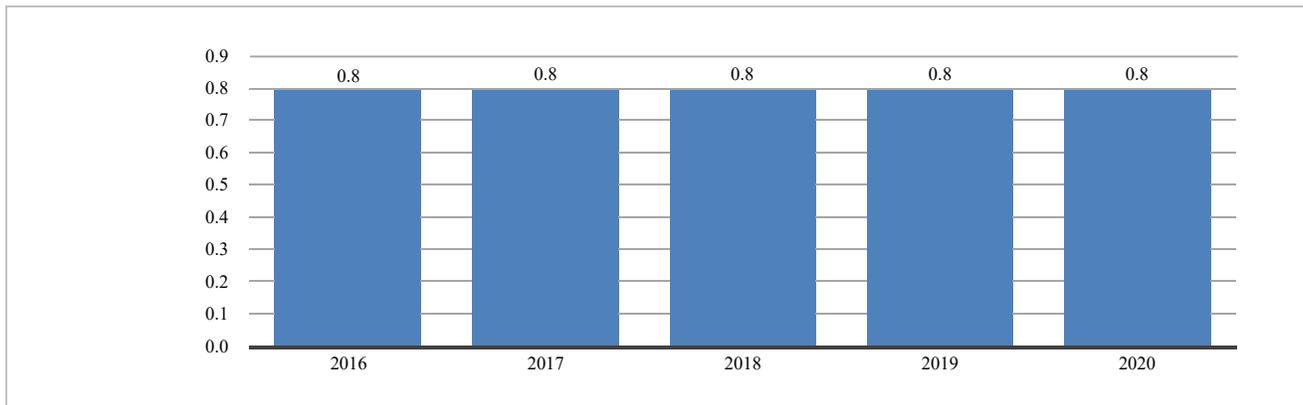


The University of Texas at San Antonio (continued)

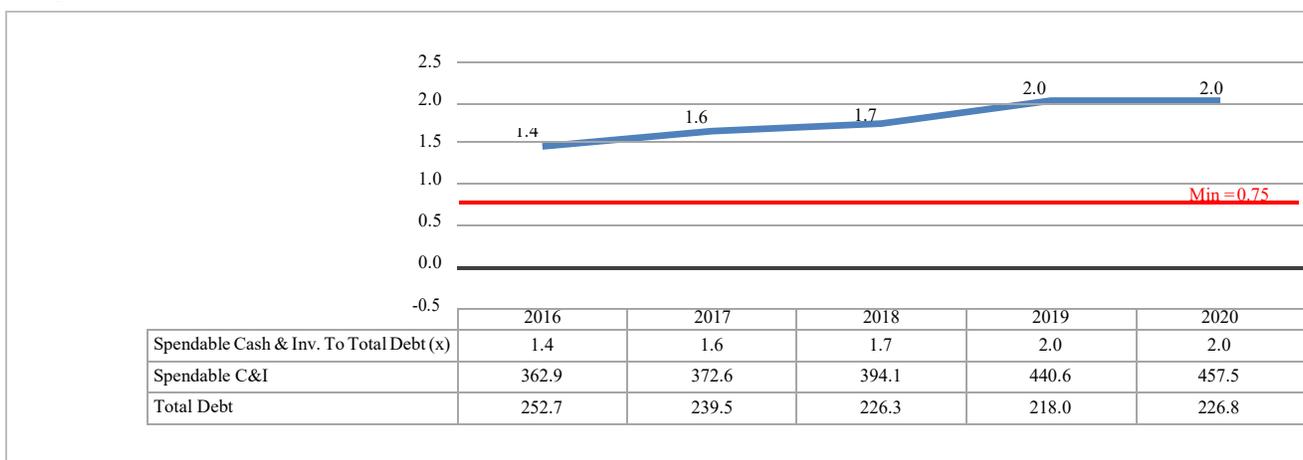
3. Annual Operating Margin



4. Spendable Cash & Investments to Operating Expenses



5. Spendable Cash & Investments to Total Debt



Appendix A - Definitions of Evaluation Factors

- Overall Scorecard Rating – The Overall Scorecard Rating has four broad factors for academic institutions and three broad factors for healthcare institutions.

Factors for Academic Institutions

- Market Profile
- Operating Performance
- Wealth and Liquidity, and
- Leverage

Factors for Healthcare Institutions

- Market Position
- Operating Performance & Liquidity, and
- Leverage

There are sub-factor calculations under these broad factors and each sub-factor is assigned a weight and a value. After calculating each sub-factor, the results are mapped to a rating category. The sub-factor ratings are then converted to alpha numeric values, which are multiplied by the assigned weights and summed to produce an aggregate weighted score. That aggregate score is then mapped to the appropriate rating. See Appendix B for each institution's calculation. The maximum scorecard rating is 6.0.

- Annual Operating Margin Ratio – This ratio indicates whether an institution is operating within its available resources. The interest expense used in this calculation excludes interest expense on tuition revenue bonds (TRBs) and the general revenue supporting interest and principal payments is also excluded.

$$\frac{\text{Op Rev} + \text{GR} + \text{Op Gifts} + \text{Nonexch SP} + \text{Inv Inc} + \text{LTF/RAHC/AUF/ILP/OCP Mgmt Trans} + \text{NSERB Appr} + \text{Hazelwood/NRUF/TCMHCC Trans} - \text{Op Exp} \& \text{Int Exp}}{\text{Op Rev} + \text{GR} + \text{Op Gifts} + \text{Nonexch SP} + \text{Inv Inc} + \text{LTF/RAHC/AUF/ILP/OCP Mgmt Trans} + \text{NSERB Approp} + \text{Hazelwood/NRUF/TCMHCC Trans}}$$

- Spendable Cash & Investments to Operating Expenses Ratio for Academic Institutions – This ratio indicates the extent to which an academic institution can rely on wealth that can be accessed over time or for a specific purpose to operate without earning additional revenue. The interest expense used in this calculation excludes interest expense on (TRBs).

$$\frac{\text{Total Cash and Investments less Nonexpendable Net Position}}{\text{Total Operating Exp. (excluding Scholarships Exp.)} + \text{Interest Expense}}$$

- Spendable Cash & Investments to Total Debt Ratio for Academic Institutions – This ratio examines the ability of an academic institution to repay bondholders from wealth that can be accessed over time or for a specific purpose. The total debt used in this calculation excludes TRBs. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 0.75 times.

$$\frac{\text{Total Cash and Investments less Nonexpendable Net Position}}{\text{Debt not on Institution's Books (excluding TRBs)} + \text{Capital Lease Liabilities}}$$

- Unrestricted Cash & Investments to Total Debt Ratio for Healthcare Institutions – This ratio examines the ability of a healthcare institution to repay bondholders from unrestricted cash and investments. The total debt used in this calculation excludes TRBs. Debt capacity thresholds are provided by the Office of Finance. The minimum spendable cash and investments to total debt ratio is 1.5 times.

$$\frac{\text{Total Unrestricted Cash and Investments}}{\text{Debt not on Institution's Books (excluding TRBs)} + \text{Capital Lease Liabilities}}$$

| U. T. San Antonio | Weight | Value | Rating | Weighted Scale |
|--|--------|--------|--------|----------------|
| Market Profile: | | | | |
| Operating Revenue (\$ in millions) | 15% | 544.89 | Aa | 0.45 |
| Annual Change in Operating Revenues (%) | 5% | 6.09% | Aa | 0.15 |
| Total Weighted Market Profile | | | | <u>0.60</u> |
| Operating Performance: | | | | |
| Operating Cash Flow Margin (%) | 20% | 11.23% | Aa | 0.60 |
| Max. Single Revenue Contribution (%) | 10% | 48.36% | Aa | 0.30 |
| Total Weighted Operating Performance | | | | <u>0.90</u> |
| Wealth & Liquidity: | | | | |
| Total Cash & Investments (\$ in millions) | 15% | 579.58 | Aa | 0.45 |
| Spendable Cash & Inv. to Operating Exp. (x) | 10% | 0.84 | Aa | 0.30 |
| Cash on Hand (days) | 5% | 251.28 | Aa | 0.15 |
| Total Weighted Wealth & Liquidity | | | | <u>0.90</u> |
| Leverage: | | | | |
| Spendable Cash & Inv. to Total Debt (x) | 10% | 2.02 | Aa | 0.30 |
| Total Debt to Cash Flow (x) | 10% | 3.71 | Aaa | 0.10 |
| Total Weighted Leverage | | | | <u>0.40</u> |
| U. T. San Antonio - Overall Rating & Numeric Score | | | Aa2 | 2.8 |