10 MAY 2024

Fitch Rates Texas State University System's Series 2024 RFS Bonds 'AA'; Outlook Stable

Fitch Ratings - Austin - 10 May 2024: Fitch Ratings has assigned a 'AA' rating to the following revenue financing system (RFS) bonds to be issued by the Board of Regents (BOR) of the Texas State University System (TSUS) on behalf of TSUS:

--Approximately $591.7 million in RFS revenue and refunding bonds, series 2024.

Fitch has also affirmed the 'AA' rating on the various outstanding system RFS bonds issued by the TSUS Board of Regents and TSUS' Issuer Default Rating (IDR) at 'AA'. In addition, Fitch has affirmed at 'F1+' the TSUS-authorized RFS extendible commercial paper (CP) program (consisting of RFS commercial paper notes, series A and RFS commercial paper notes, taxable series B).

The Rating Outlook is Stable.

The series 2024 bonds are expected to price on May 21, 2024. Bond proceeds will largely fund the construction of new academic and student housing facilities, as well as refund a portion of TSUS' outstanding CP and certain outstanding debt obligations for debt service savings.

The 'AA' IDR and revenue bond ratings reflect Fitch's expectation that TSUS will maintain its historically strong 'aa' Financial Profile, underpinned by a solid resource base and very strong state support. These credit strengths, in the context of a strong operating profile that has generated adjusted cash flow margins of no less than 12% historically, largely offset TSUS' relatively high debt burden that will increase with the current issuance and further near-term capital and debt plans. TSUS has good student demand and continued enrollment growth prospects are supported by solid demographic trends and the system's reach throughout the state.

The 'F1+' Short-Term rating on TSUS' ECP program corresponds to the system's 'AA' IDR, which implies strong market access and financial flexibility to take out notes inside the extended maturity window, if necessary.

SECURITY

The series 2024 and outstanding RFS bonds are secured by all legally available revenues, funds, and balances of TSUS. Pledged revenues specifically exclude state appropriations and restricted funds. The RFS CP notes are on parity with the outstanding RFS bonds.

KEY RATING DRIVERS

Revenue Defensibility - 'aa'

Sound Growth Prospects for System; Strong State Funding Support

TSUS serves students across seven campuses in several regions of the state of Texas (AAA/Stable). Its student base has generally tracked flat to modest growth in recent years, although full time enrollment (FTE) rose by a robust, nearly 5% yoy to 69,936 in fall 2023 (fiscal 2024) or 91,334 in headcount.

Applications are reportedly up year-to-date for fall 2024, and further TSUS enrollment expansion is anticipated by management over the next few years. Management reports student housing occupancy remains strong (96% in fall 2023) at nearly all of TSUS' four-year institutions, bolstered in part by limitations inherent in a low inventory of student housing. Fitch expects sound demand fundamentals will generate similar trends over the intermediate term.

TSUS' revenue base is strong and fairly diverse, with additional pricing power, if needed. The system also benefits from the state's strong funding framework for operations and capital. Net tuition/fees and auxiliary revenue contributed a more typical 45% of fiscal 2023 adjusted total operating revenues, followed by 28% from state appropriations.

Fitch expects the state will maintain TSUS' historically strong funding levels over time, most recently exemplified by TSUS' mix of both new one-time operational and/or capital dollars as well as increased ongoing, general operational state funding support for the current fiscal 2024-2025 biennium. A certain portion of this new biennial state funding is provided as a result of a mutual agreement to maintain affordability between the state and all public Texas university systems, which largely precludes any TSUS increases to basic tuition and fees in this period.

Fitch expects TSUS will further strengthen its revenue diversity over time given participation in the newly established, nearly $4 billion Texas University Fund (TUF), designed to expand the state's research capacity in certain target areas. Texas State University, located in San Marcos, was recognized by the state as an emerging research university in 2012, reflective of progression towards becoming a tier-one research institution. More recently, the university was selected as one of four initial, TUF eligible public universities in Texas, which will result in new research funding beginning in fiscal 2024 of about $22 million/year (equal to roughly 1.5% of TSUS' fiscal 2023 total operating revenues), and the potential to receive added funding in future years. System-wide research spending totaled $166 million, roughly 9% of total unrestricted operating expenses in fiscal 2023 as compared to 5% in fiscal 2019, reflective of research gains at TSUS in recent years.

Operating Risk - 'a'

Strong Cost Management; Capital Plans Incorporate State Support

The current 'a' midrange Operating Risk assessment considers TSUS' strong operating cost flexibility and significant, recurring state support for capital, counterbalanced against its fairly large stated capital and near-term debt plans. The 'a' Operating Risk assessment also reflects Fitch's view that, despite potential inflationary increases to projected capital costs, TSUS' capital spending requirements and further debt leverage will remain in line with the 'a' assessment over time. The midrange (13.6) aggregate average age of plant suggests that TSUS retains some capital flexibility, if needed.

TSUS will use approximately $184 million of its $424 million, state supported CCAP/TRB authorization in this series 2024 new money bond issuance. Many of the other planned debt-funded capital projects in this issuance, such as auxiliary student housing, could feasibly self-support the associated debt, while other projects anticipate a mix of funding including grants or gifts. Fundraising largely occurs at TSUS' four-year institutions, although it remains relatively modest in size, as compared with recurring and one-time state capital funding levels.

TSUS has a track record of very strong expense management and financial performance, with Fitch-adjusted cash flow margins consistently around 12% or better when including state HEF capital appropriations. While fiscal 2023 operations generated a slightly slimmer, roughly 11% adjusted cash flow margin, Fitch believes the system has the financial resilience to address revenue fluctuations and will maintain robust cash flow margins similar to historical performance over time.

Financial Profile - 'aa'

Resource Base and State Support Offset Debt Load

TSUS has a solid resource base that largely offsets the relatively high absolute debt levels, including pensions. The system has grown its available funds (AF or cash and investments less certain restricted net assets) since fiscal 2019 to balance against total debt. AF in fiscal 2023 increased modestly yoy to $1.19 billion. TSUS' Financial Profile remains resilient at 'aa' over a period of moderate investment and operating pressure in Fitch's modeled stress scenario, even when factoring in the series 2024 bonds and other planned near-term debt.

In fiscal 2024, TSUS expects to report a large increase to its endowment assets, approximately $658 million, that will represent the market value of the state's assets attributable to TSUS' position in the TUF. Fitch, however, does not anticipate these assets will be materially accretive to TSUS' AF position or 'aa' Financial Profile despite the sizeable amount given these new endowment assets are restricted in nature (in practice excluded from Fitch's AF calculation), with little to no discretion available to TSUS for modification.

Available funds-to-adjusted debt equaled a higher than usual 83% as of FYE Aug. 31, 2023, which Fitch believes is due in large part to the impact of one-time federal stimulus funds that year. Strong state capital support and a conservative, front-loaded aggregate debt service structure, help mitigate risk from the system's elevated total adjusted debt.

The system's bonded debt is all fixed-rate, with no derivative instruments. Inclusive of the series 2024 bonds and another debt issuance (at about $574 million) anticipated in 2025/2026, roughly 24% of TSUS' outstanding debt will receive CCAP debt service reimbursement, which is not pledged to bondholders, and is subject to biennial approval by the Texas legislature. Still, Texas has a long history of making CCAP (previously TRB) debt service funding payments on time and in full. TSUS' leverage ratios are somewhat overstated because of this support.

At FYE Aug. 31, 2023, TSUS had approximately $1.1 billion in long-term obligations, largely due to its outstanding RFS bonds. State-funded employees at TSUS usually participate in the state's cost-sharing Texas Teacher's Retirement System (TRS) pension plan, and in calculating TSUS' total adjusted debt of about $1.4 billion, Fitch utilized the Fitch-adjusted net pension liability (using the 6% discount rate assumption). TSUS' liquidity and coverage are neutral considerations. Available funds totaled 69% of fiscal 2023 operating expenses.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

--Trend of declining enrollment and/or fundamentally weaker demand indicators systemwide;

--Sustained Fitch-adjusted cash flow margins below approximately 8%;

--Significant and sustained declines in state operating and capital support, including unexpected loss of annual state appropriations for capital construction assistance projects/tuition revenue bond (CCAP/ TRBs) debt service;

--Material and unexpectedly higher debt leverage, such that available funds-to-adjusted debt is diminished to roughly 30%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Significantly stronger and sustained Fitch-adjusted cash flow margins exceeding 18%;

--Improved leverage position with AF -to-adjusted debt increasing toward 80%-100%.

PROFILE

Created in 1911, TSUS is the oldest university system in Texas. Seven component institutions with campuses located across the state offer either two- or four-year degree programs, in addition to comprehensive research programs that provide doctoral and/or master's degrees at the four-year institutions. The system's two largest enrollment bases are at Texas State University (32,688 FTE) and Sam Houston State University (17,246 FTE), with proximity to the expansive Austin-San Antonio or Houston MSAs.

Texas State University and Sam Houston State University are both currently designated as R2 institutions (High Research Activity) by the Carnegie Classification system. The diversity of member institutions by geography and programmatic focus benefits TSUS, which has achieved consistent enrollment and revenue growth even through periods of mild volatility at individual institutions.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Rebecca Moses
Director
Primary Rating Analyst
+1 512 215 3739
Fitch Ratings, Inc. 2600 Via Fortuna, Suite 330 Austin, TX 78746

Emily Wadhwani
Senior Director
Secondary Rating Analyst
+1 312 368 3347

Eva Thein
Senior Director
Committee Chairperson
+1 212 908 0674

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Texas State University System (TX)	LT IDR	AA	Affirmed		AA

ENTITY/DEBT		RATING		RECOVERY	PRIOR
• Texas State University System (TX) /General Revenues/ 1 LT	LT	AA ●	Affirmed		AA ●
• Texas State University System (TX) /General Revenues/ 1 ST	ST	F1+	Affirmed		F1+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	●	

Applicable Criteria

U.S. Public Finance College and University Rating Criteria (pub.19 Sep 2023) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub.12 Jan 2024) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Texas State University System Board of Regents (TX)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.