New York, May 08, 2024 -- Moody's Ratings (Moody's) has assigned a Aa2 rating to the Board of Regents of Texas State University System's (TSUS or the system) proposed approximately $592 million Revenue Financing System Revenue and Refunding Bonds, Series 2024. The bonds are fixed rate, maturing in 2054. Moody's has also affirmed Texas State University System's Aa2 issuer rating, the outstanding Aa2 debt ratings, and the P-1 rating on Commercial Paper Notes, Taxable and Tax-Exempt. The system had approximately $1 billion in total debt for fiscal 2023. The outlook is stable.

RATING RATIONALE

Affirmation of the Aa2 issuer rating incorporates the system's excellent strategic positioning with a sizable and growing student base, serving around 70,000 full-time equivalent (FTE) students across seven member institutions throughout southeastern, central, and southwestern Texas. The system benefits from robust operating and capital support from the State of Texas (Aaa stable). State appropriations increased 27% from fiscal 2019 to 2023, accounting for 29% of fiscal 2023 operating revenue. Operating performance is a credit strength, generating EBIDA margins averaging around 18% since fiscal 2019, providing very good debt service coverage and supporting the system’s excellent financial policy and strategy. Overall wealth is very strong, with total cash and investments of $1.4 billion covering total adjusted debt and expenses by a sound 0.8x and 1.0x, respectively, in fiscal 2023. With the addition of Texas University Fund, which is a new $3.95 billion endowment, one-sixth of the total fund ($658 million) will be allocated to the system, further strengthening the balance sheet. Ongoing net tuition and exceptional state funding growth will support continued strong operating performance. However, pro forma leverage is highly elevated, including the planned new debt issuance over the next two years and a large net pension liability that may require higher system employer contributions.

The assignment and affirmation of the Aa2 rating on the system's revenue bonds
incorporates the system's issuer level rating and a broad pledge of tuition and other revenue along with state support for debt service on approximately 22% of total outstanding bonds, including the Series 2024 bonds.

The short-term P-1 rating on the Series A CP program, which consists of extendable commercial paper (ECP) notes, primarily reflects the system's ability to access the market based on its Aa2 long-term rating. Its growing pool of unrestricted cash and investments also supports the highest short-term rating.

RATING OUTLOOK

The stable outlook reflects Moody's expectations that the system will continue to receive strong state support and generate EBIDA margins of around 15% and at least 2x debt service coverage while maintaining wealth and liquidity.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Growing student demand, driving sustained increases in enrollment and net tuition revenue
- Material growth in wealth and liquidity relative to debt and expenses

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to generate EBIDA margins of 15% and debt service coverage of 2x or above
- Additional borrowing beyond the current multi-year debt plans, given already high leverage levels

LEGAL SECURITY

The system's Revenue Financing System (RFS) debt and ECP notes are on parity and secured by a broad pledge of revenue, including tuition, fees, and auxiliary revenue and certain unappropriated funds and reserve balances but excluding state appropriations and other restricted funds. Pledged Revenues in fiscal 2023 totaled $840 million, providing 7.9x coverage of maximum annual debt service ($106 million).

USE OF PROCEEDS

Proceeds from the proposed Series 2024 bonds will be used to finance acquisition, purchase, construction and renovation for certain members of the Revenue Financing System, pay costs of issuance as well as refunding the outstanding amount of Series 2014 bonds.

PROFILE
The Texas State University System is comprised of seven institutions, both four-year and two-year, located throughout southeastern, central, and southwestern Texas. The largest institutions are Texas State University in San Marcos and Sam Houston State University in Huntsville. The system recorded operating revenue of $1.5 billion in fiscal 2023 and served headcount enrollment of over 91,000 students in fall 2023.

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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