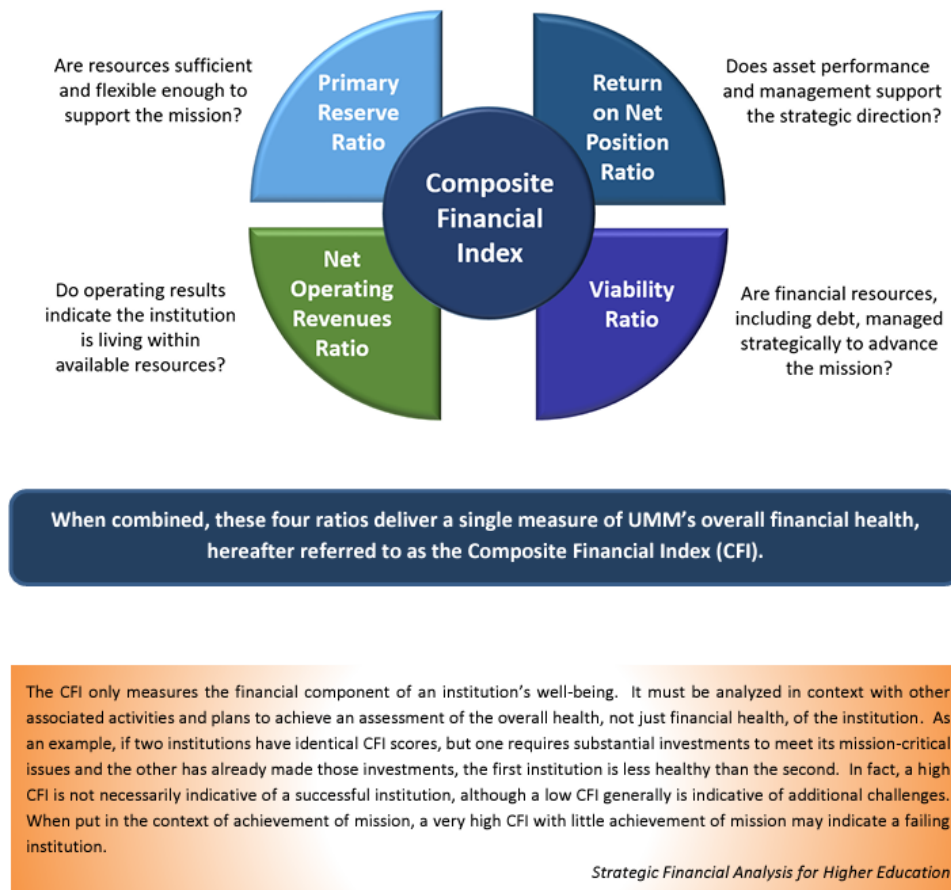


Texas State University Overview of Financial Health FY 2024

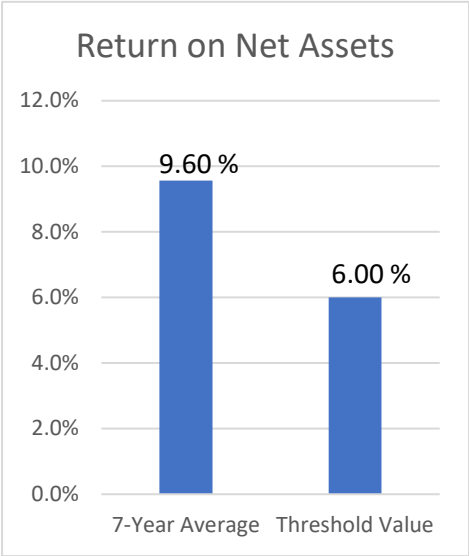
The 2023-2029 Texas State University strategic plan, *Hopes and Aspirations High*, includes four pillars: elevating student success, becoming a Carnegie R1 institution, growing enrollment, and solidifying our position as a great place to work. The successful pursuit of these goals relies on the university's overall financial health. Financial health, measured over time, helps to identify present and future opportunities and challenges. The Composite Financial Index (CFI) is the most widely used metric to provide simple, objective, insight into the overall financial health of an institution. The CFI was designed by higher education finance professionals in conjunction with credit rating agencies and is described in greater detail in [Strategic Financial Analysis in Higher Education](#). Since it was first published in 1980, through its most recent update in 2016, *Strategic Financial Analysis for Higher Education*, has been acknowledged as the seminal work on ascertaining the financial health of an institution of higher education and is used extensively by trustees, senior leaders, and credit analysts.



As seen in the infographic above, the CFI is comprised of four weighted ratios derived directly from an institution’s annual financial report. Two of the ratios are tied to current-year operational performance, the third is related to debt, and the fourth is related to institutional reserves.

CFI Component 1: Return on Net Assets (Weight 20 percent) (Threshold 6 percent)

Return on Net Assets compares the potential earning capacity of the institution to its actual earnings results. It determines whether an institution is financially better off than in the previous year by measuring total economic return. Over the last 7 years, Texas State University has returned an average of 9.60 percent on its net assets annually, with a rate of 1.97 percent for FY2024. The 7-year average is above the recommended benchmark threshold value of 6.0 percent which is indicative of financial health. The lower rate in FY2024 was anticipated as the university issued bonds and continued to invest in capital assets.

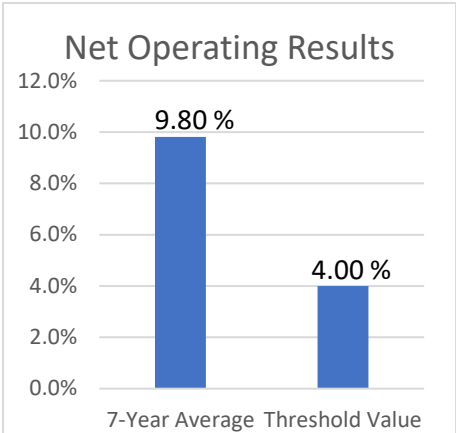


Texas State reports a nominal rate of return unadjusted for inflation or other factors. Some universities present a real rate of return which adjusts for the effects of inflation. Over the past 30 years, the annual impact of inflation has been a relatively minor factor which did not materially change the meaning of this measure. With inflation over the past few fiscal years pushing into the 5% and 6% range, achieving the threshold value of 6% is even more important for keeping up with inflation.

CFI Component 2: Net Operating Revenues Ratio (Weight 10 percent) (Threshold 4 percent)

The Net Operating Revenues Ratio measures annual operating performance, or “profit & loss.” It answers the question, are we living within our means? The Net Operating Revenues Ratio for Texas State has averaged 9.80 percent over the past 7 years, with an 11.66 percent return for FY2024.

The university anticipates entering a period of planned uses of reserves in the coming years which will decrease this ratio

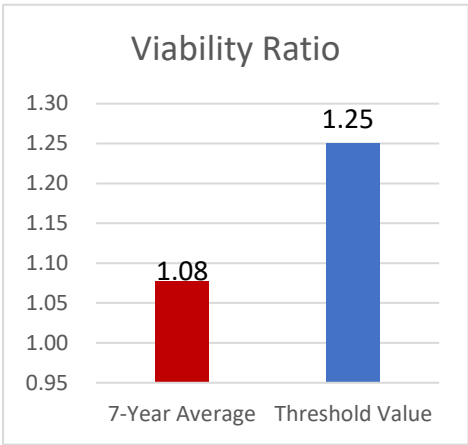


considerably. We are investing in numerous strategic initiatives, including the launch of many new doctoral programs, online programs, Round Rock campus programs, and a significant increase in our research investments to achieve, maintain, and exceed R1 status.

CFI Component 3: Viability Ratio (Weight 35 percent) (Threshold 1.25x)

The viability ratio is a measure of an institution’s level of debt and is tied with Primary Reserves as the highest-weighted factor in the CFI calculation since it can take decades to change this ratio in a meaningful way. This ratio measures expendable resources that are available to cover debt obligations and is tied to an institution’s ability to assume new debt.

The threshold for financial health for this ratio is 1.25 at a minimum, with 2.0 being ideal. A ratio of 2.0 would mean that an institution has twice as much in expendable net assets as it does long-term debt. Texas State has carried an average ratio of 1.08 for the last 7 years with a value of 0.97 in FY2024. This is the university’s weakest indicator of financial health. It is unlikely that the university, given our aggressive growth plans, will be able to improve this ratio over FY24’s 0.97 figure for the



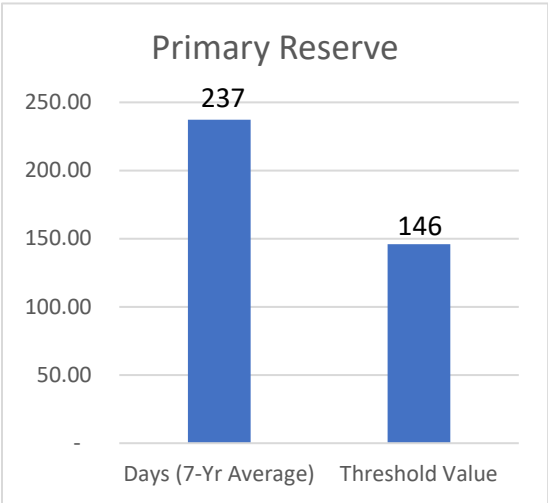
foreseeable future. In fact, the university currently has plans to take on approximately \$398 million in additional long-term debt, only \$89 million of which will be supported from state appropriations, which will reduce this ratio further. We must continue to compensate for our relative weakness in this respect by retaining a healthy Primary Reserve Ratio to bolster our overall financial health.

A ratio of 1.25 or greater indicates that there are sufficient resources to satisfy debt obligations.

There is no absolute threshold that will indicate whether the institution is no longer financially viable. However, the Viability Ratio, along with the Primary Reserve Ratio discussed earlier, can help define an institution’s “margin for error”. As the Viability Ratio’s value falls below 1:1, an institution’s ability to respond . . . , to adverse conditions from internal resources diminishes, as does its ability to attract capital from external sources and its flexibility to fund new objectives.

Strategic Financial Analysis for Higher Education

CFI Component 4: Primary Reserve Ratio (Weight 35 percent) (Threshold 0.4 or 146 days)



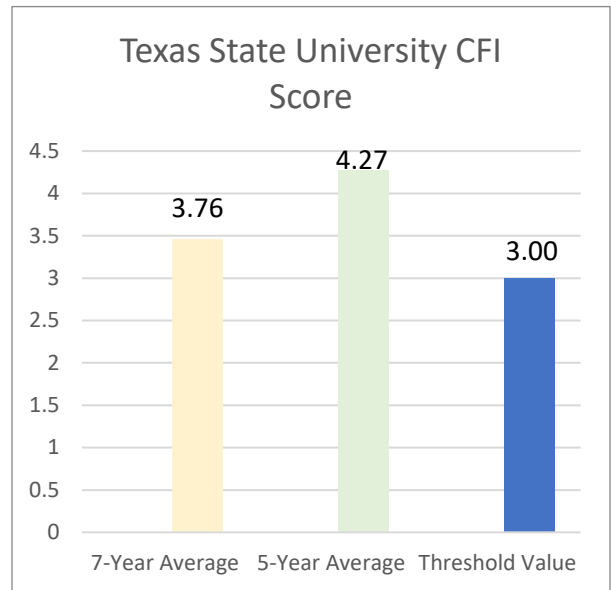
This ratio indicates how long an institution can operate on its reserves without needing to generate additional income. It is tied for the highest-weighted indicator of financial strength because these reserves have taken, in our case, since our founding in 1899 to amass. Texas State University has maintained an average of 237 days of reserves over the last 7 years. The recommended benchmark is 146 days or approximately five months. The university had 313 days in reserves at the end of FY2024.

Carrying reserves at these healthy levels serves as a direct counterbalance to our weak and declining Viability Ratio. It also means that Texas State can weather unforeseen adverse financial events and implement its strategic plans. Note that the 313 days includes funds that would not normally or legally be available to spend short of an exigent circumstance, like bankruptcy. Please see the following discussion of available reserves for a better understanding of the types of funds included in this calculation.

Composite Financial Index Summary Analysis

Texas State, on average, earned a CFI score of 3.76 over the last 7 years and a score of 4.27 for the most recent five years. While both of these exceed the threshold value for the financial health of 3.0, our more recent 5-year average indicates the university’s financial health is improving. In short, Texas State has adequate financial health for a large public university. Our Primary Reserves of 313 days of expense coverage would allow us to meet operating obligations in the event of an emergency or catastrophe. We continue to grow net assets by maintaining positive annual operating returns, though we anticipate some negative years are possible in the near future.

In conclusion, Texas State has enough wealth and access to capital resources to finance its strategic plans and endure unanticipated financial challenges. It is imperative that we carefully manage debt and reserves in tandem with our plans to take on significant debt in the near future and use reserves to balance the budget over the next several years. The university has sufficient financial strength to continue to pursue its aggressive plans for growth in total enrollment, improvements to student success, and pursuit of becoming a Carnegie R1 University.

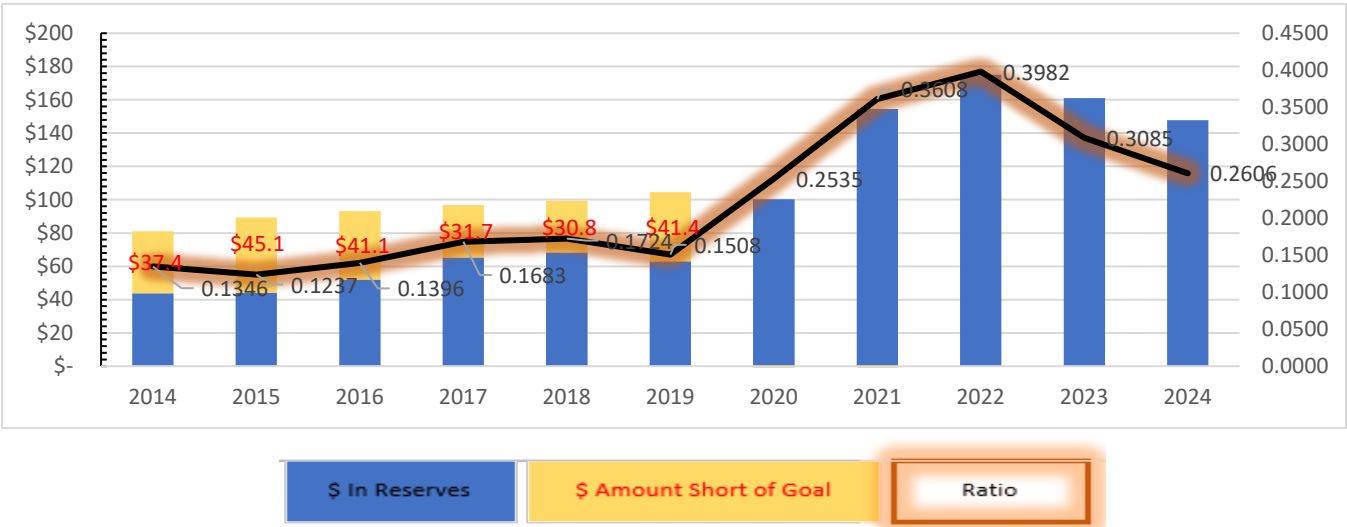


The Available Reserves Ratio

While the Primary Reserve Ratio used in the CFI measures the amount of funding we could access in an emergency, it includes funds that are often restricted to specific uses, making a significant portion of these reserves unavailable except in dire circumstances. For this reason, Texas State uses Available Reserves as an additional measure of financial health, as detailed in [University Policy Statement 03.02.01](#) and [Financial Self-Assessment: A Workbook for Colleges](#). Available Reserves represents reserves as most people would use the term in that it excludes funds that are restricted in use. Our policy goal for Available Reserves is to maintain a ratio of 0.25 or 90 days of reserves.

As demonstrated in the chart below, Texas State prior to 2020 had averaged an Available Reserve Ratio of 0.15 representing only 53 days of expense coverage. Since 2020, Texas State has successfully achieved its goal of maintaining 90 days in Available Reserves, ending 2024 with 95 days or an Available Reserve Ratio of .26. Notably, 2024 shows a second consecutive reduction due to significant investments in our vision for Texas State, including support for the Run to R1 initiative. These strategic investments are essential for the university’s long-term sustainability and success.

Texas State University Available Reserves 2014-2024



Putting this in context, Texas State University is an institution with over \$2 billion in total assets. As such, 95 days of Available Reserves is still a large sum, \$147,781,978 to be exact. This amount is not in a single account at Texas State called “Reserves”. Rather, this amount is distributed across hundreds of operating units within the institution, including colleges, schools, academic

programs, administrative offices, and student support areas. While all the funds in our Available Reserves are unrestricted from a legal standpoint, and we can use them for other things, one should not have the notion that there are no plans for the funds. Those offices and departments have annual goals and strategic plans that they are counting on using these funds to accomplish. The university budget approved by the Board of Regents of the Texas State University System does include a single budget account called “Institutional Reserves” that is completely unallocated and is set aside for unexpected needs. The amount in that account is \$2,234,426, or a fraction of one percent of our all-funds budget of more than \$1 billion.

Finally, it is crucial for the university to maintain transparency and accuracy in reporting Primary Reserves and Available Reserves. Primary Reserves are comprised of the university’s Unrestricted Net Assets as reported in the Annual Audited Financial Statement. That amount is \$656,650,346 for FY 2024. Below is high-level summary of the seven types of funds that make up nearly 90 percent of Primary Reserves, including Available Reserves which is one of the eight categories. Most of the funds in Primary Reserves have restrictions on their use.

High Level Breakdown of Primary Reserves FY 2024

	Fund Type	FY 2024
1	Available Reserves	
	<i>Primarily Tuition Revenue</i>	\$147,781,978
2	Other Restricted Account Balances	
	<i>Primarily Fee, Sales & Service, and Research Revenue</i>	\$84,432,362
3	Auxiliary Account Balances	
	<i>Primarily Housing, Athletics, Parking and Transit</i>	\$58,222,376
4	Committed Plant Funds	
	<i>Primarily Auxiliary and HEF facility reserves</i>	\$59,971,706
5	Quasi-Endowments	
	<i>Require Board of Regents Approval to spend</i>	\$141,442,608
6	Prepaid Items	
	<i>Primarily Commitments to Student Scholarships</i>	\$73,417,845
7	Encumbered Funds Awaiting Expense at Year-End	\$12,188,248
Totals to 87.9 percent of Unrestricted Net Assets		
		\$577,457,123