

Texas State University System

New Issue Summary

Sale Date: Oct. 24 via negotiated sale

Series: \$168,550,000 Texas State University System Board of Regents (TX) Revenue Financing System Revenue & Refunding Bonds, Series 2019A; 150,185,000 Texas State University System Board of Regents (TX) Revenue Financing System Refunding Bonds (taxable), Series 2019B

Purpose: Proceeds will fund various capital improvements, fix out a portion of outstanding extendible commercial paper (ECP) notes, refund certain outstanding RFS bonds for savings, and pay certain costs of issuance.

Security: Revenue Financing System (RFS) bonds are secured by all legally available revenues, funds, and balances of the system. Pledged revenues exclude state appropriations and other restricted funds. RFS commercial paper notes are on parity with the bonds.

The 'AA' IDR and bond ratings reflect TSUS's strong financial profile, with a solid resource base and very strong state support offsetting relatively high debt, in context of a strong business profile. The large state-wide system has good student demand and growth prospects, and large but somewhat flexible capital plans are heavily supported by the state and other external funding sources. The 'F1+' short-term rating on the 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.

Key Rating Drivers

Revenue Defensibility: 'aa'; Large and Growing System Enrollment: Headcount enrollment across the system has grown each year since fall 2007, demonstrating TSUS's healthy demand. Headcount has grown by an average of 1.3% annually since fall 2014 to a total of 86,299 in fall 2019 (preliminary), with most individual institutions experiencing growth over that period. System full-time equivalent (FTE) enrollment has increased at a similar pace to nearly 68,000 over the past five years.

Operating Risk: 'a': Strong Cash Flow and State Support for Capital Plans: TSUS has good cost flexibility with consistently strong adjusted cash flow margins. Fairly large stated capital plans are offset by substantial external funding, especially from the state, and flexibility as to the timing and scope of projects.

Financial Profile: 'aa': Resource Base and State Support Offset Debt Load: The system maintains a strong financial position with a solid resource base despite high absolute debt levels. State support for a notable portion of outstanding debt and pension obligations further anchors TSUS's financial profile.

Asymmetric Additional Risk Considerations: None

Rating Sensitivities

Balance Sheet Resources: Fitch believes that TSUS has capacity at the current rating level to manage its capital and debt plans, but material unexpected weakening of balance sheet ratios could negatively affect the rating.

State Support: TSUS has the resources and financial flexibility to manage through moderate volatility in state funding. However, a significant decline in state support beyond historical experience could pressure the rating.

Ratings

Long Term Issuer Default Rating AA

New Issues

\$168,550,000 Texas State University System Board of Regents (TX) Revenue Financing System Revenue & Refunding Bonds, Series 2019A AA
\$150,185,000 Texas State University System Board of Regents (TX) Revenue Financing System Refunding Bonds (Taxable), Series 2019B AA

Outstanding Debt

Texas State University System Board of Regents (TX) Revenue Financing System Bonds AA
Texas State University System Board of Regents (TX) Extendible CP Notes Series A F1+
Texas State University System Board of Regents (TX) Extendible CP Notes (Taxable) Series B F1+

Rating Outlook

Stable

Related Research and Criteria

[Fitch Rates \\$324MM Texas State University System Series 2019 RFS Bonds 'AA'; Outlook Stable \(October 2019\)](#)

[U.S. Public Finance Short-Term Debt Rating Criteria \(November 2017\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(May 2019\)](#)

[U.S. Public Finance College and University Rating Criteria \(June 2019\)](#)

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Credit Profile

Created in 1911, TSUS is the oldest university system in Texas. Seven component institutions across the state provide both two- and four-year degree programs in addition to graduate and research programs. The diversity of member institutions by geography and programmatic focus ultimately benefits the system, as enrollment gains at the larger members have offset declines at certain smaller members to provide for continued overall revenue growth.

Revenue Defensibility

TSUS has very strong student demand, with a diversified and solid position in a growing state-wide market that should support its strategic aim to increase enrollment above 90,000 over the next few years. Demand indicators are competitive at the four-year institutions, including Texas State University and Sam Houston State University, while other institutions, including the state colleges, have more moderate demand indicators but serve different geographies and roles within the system.

The system's statewide presence in the growing Texas market and the state's continued investment to increase college-going rates support further growth plans. In addition, TSUS's largest institutions are well-positioned to serve the highest growth areas. Texas State University sits in San Marcos between Austin and San Antonio, while Sam Houston State University and Lamar University serve the fast-growing Southeastern part of the state.

Demand Summary

(\$'000, Fall Semester of Fiscal Years Ended Aug. 31)	2015	2016	2017	2018	2019
Headcount					
Undergraduate	67,269	69,089	70,738	71,524	71,583
Graduate	13,446	13,373	13,169	12,548	13,060
Total Headcount Enrollment	80,715	82,462	83,907	84,072	84,643
Total Undergraduate/Total Headcount Enrollment (%)	83.3	83.8	84.3	85.1	84.6
Full-Time Equivalent (FTE)					
FTE Enrollment	61,815	62,598	63,596	64,593	65,449
5-Year FTE Enrollment CAGR (%)	2.4	1.6	1.8	1.5	1.5
Admissions					
Freshman Applications	33,498	38,999	42,514	43,986	43,750
Freshman Admissions	25,946	28,698	30,687	32,456	34,597
Acceptance Rate (%)	77.5	73.6	72.2	73.8	79.1
Freshman Matriculants	9,840	10,339	10,432	10,691	10,917
Matriculation Rate (%)	37.9	36.0	34.0	32.9	31.6
In-State Undergraduate Student (%)	95.3	95.1	95.5	96.0	96.1
Out-of-State Undergraduate Student (%)	4.7	4.9	4.5	4.0	3.9

Source: Fitch Ratings, Fitch Solutions, Texas State University System (TX).

TSUS has strong revenue source characteristics based on underlying additional pricing power and strong state operating support. Net student revenues have grown generally in line with enrollment over time and now make up just under half of the system's operating revenues. Growth in net tuition per FTE has averaged nearly 3% per year over the past five years, and Fitch believes TSUS has strong pricing power given its relatively affordable tuition rates. While TSUS is able to raise tuition rates, a recent trend of moderating net tuition growth will likely continue as the system prioritizes affordability goals; TSUS has increased aid and announced a reduction in state college tuition for fall 2019. Efforts to constrain tuition growth are offset by strong state operating support, which accounts for nearly 30% of operating revenues. State appropriations increased about 10% on aggregate for the 2020-2021 biennium and are expected to remain generally stable as a percent of operating revenues going forward.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Assigned	Stable	10/11/19

Rating History (RFS Long-Term Ratings)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/11/19
AA	Revised	Stable	4/30/10
AA-	Assigned	Stable	11/06/03

Rating History (RFS Extendible CP Ratings)

Rating	Action	Outlook/ Watch	Date
F1+	Affirmed	—	10/11/19
F1+	Assigned	—	10/23/15

Operating Risk

TSUS has a track record of strong financial performance, with adjusted cash flow margins consistently around 14% or better including certain state capital support that may be used to pay debt service. Fitch believes TSUS has good financial flexibility to address potential cyclical fluctuations in state funding and expects the system will continue to maintain solid operating results across its component institutions.

TSUS has invested heavily in facilities to support enrollment growth, with capital expenditures averaging more than twice depreciation expense over the past five years and higher in recent years. Future capital plans are also fairly large but manageable at the current rating level given strong and consistent state capital support and TSUS's flexibility to defer or downsize projects based on the availability of funding sources. TSUS's current capital improvement plan identifies as much as \$1.4 billion in potential spending through 2025, but specific projects are subject to individual approval, and much of the university's actual spending depends on external funding availability. Over half of the \$1.4 billion plan would likely be flexible regarding timing, or funded by or contingent on, external sources, including constitutional state capital appropriations, additional tuition revenue bonds (TRBs — RFS bonds for authorized projects for which the state appropriates funds to pay debt service), and grants and gifts.

Financial Profile

The system maintains a solid financial position and has grown its available funds (cash and investments less certain restricted net assets) in recent years to balance relatively high total debt. University-only available funds totalled \$886 million as of Aug. 31, 2018 (including about \$100 million of bond proceeds), up from about \$700 million in 2015. This available funds level equals a solid 57% of adjusted debt (which totals \$1.5 billion including a \$338 million Fitch-adjusted net pension liability [NPL] attributable to the system). Fitch expects TSUS's financial profile will remain strong and generally stable despite sizeable near-term capital plans due to expectations of strong financial performance and ongoing capital support. Its financial profile is resilient to moderate operating or investment stress.

Strong state support and a conservative debt structure further mitigate risk from the system's relatively high total adjusted debt. A notable portion of outstanding debt is directly state supported. Approximately \$252 million of RFS bonds (26% of the total outstanding) funded TRB-authorized projects; the state legislature has long and consistently appropriated funds to cover annual debt service costs for TRB projects. Another \$80 million are supported by constitutional appropriation, and the system's conservatively front-loaded debt structure will result in amortization of over \$300 million in the next five years. State support for pension obligations also bolsters TSUS's financial profile, as direct state funding of a portion of the pension contributions related to TSUS employees significantly reduces TSUS's reported pension liability and improves its Fitch-calculated leverage metrics.

Fitch has no concerns about liquidity or coverage, as TSUS maintains university-only available funds equal to a strong 68% of operating expenses and maintains debt service coverage generally over 2x from operations. TRB appropriations were about \$39 million in 2018, or 32% of annual debt service costs. In addition to the university system's available funds, foundations supporting the individual component units hold additional funds, largely as endowed or project-restricted funds. These funds are not included in available funds for data availability and quality reasons but would modestly improve TSUS's Fitch-adjusted leverage metrics if included.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 – 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.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Financial Ratios

(\$000, Audited Fiscal Years Ended Aug. 31)	2015	2016	2017	2018
Revenue Diversity (% Adjusted Total Unrestricted Operating Revenues)				
Tuition	40.2	38.9	38.7	37.5
Student Fees (Tuition and Auxiliary Revenues)	51.6	50.3	49.5	48.5
Federal Grants and Contracts	12.1	11.6	12.0	12.7
State/Local Grants and Contracts	4.2	4.5	4.3	4.4
Other Grants and Contracts	0.8	0.8	0.7	0.6
Total Grants and Contracts	17.1	16.8	17.0	17.7
State Appropriations	25.7	26.7	28.1	27.8
Healthcare Operations	0.0	0.0	0.0	0.0
Gifts and Contributions	2.2	2.8	2.2	2.2
Total Investment Return	0.8	0.8	1.2	1.7
Expense Ratios (% Total Unrestricted Operating Expenses)				
Instruction	30.3	30.3	31.0	29.8
Research	4.0	4.4	4.7	5.0
Healthcare Operations	0.0	0.0	0.0	0.0
Operation and Maintenance of Plant	6.6	6.7	6.8	7.1
Depreciation	7.2	7.2	7.3	7.8
Interest	4.4	2.7	3.0	3.5
Capital Investment Ratios				
Capital Expenditures as % of Depreciation	135.2	239.9	295.4	315.2
Average Age of Plant	13.0	13.8	14.1	14.0
Financial Aid Ratios				
Tuition Discounting (%)	23.6	25.6	25.4	27.6
Net Tuition and Fees	511,337	536,255	549,824	545,868
Change in Net Tuition and Fees (%)	9.0	4.9	2.5	(0.7)
Net Tuition Revenue/FTE	8,272.1	8,566.7	8,645.6	8,450.9
Change in Net Tuition Revenue/FTE (%)	7.0	3.6	0.9	(2.3)
5-Year Net Tuition Revenue per FTE Enrollment CAGR (%)	4.7	5.4	3.9	2.8
Operating Performance Ratios (%)				
Adjusted Operating Margin	2.6	8.1	7.9	11.0
Cash Flow Margin Adjusted	13.8	17.2	17.2	20.6
Balance Sheet Ratios (%)				
Available Funds/Total Operating Expense	56.5	62.4	63.2	68.4
Available Funds/Total Long Term Debt	77.3	91.5	67.3	73.9
Available Funds/Adjusted Debt	56.3	66.0	53.1	57.2
Leverage (Adjusted Total Unrestricted Operating Revenues Basis)				
Current Debt Service Coverage (x)	1.6	2.9	2.1	2.6
Current Debt Burden (%)	8.5	5.9	8.2	8.2

Note: Fitch may have reclassified certain financial statement items for analytical purposes.
Source: Fitch Ratings, Fitch Solutions, Texas State University System (TX).

Financial Summary

(\$000, Audited Fiscal Years Ended Aug. 31)	2015	2016	2017	2018
Unrestricted Operating Revenues				
Gross Tuition and Fees	669,553	721,079	737,381	753,794
Less: Student Aid	158,216	184,824	187,557	207,926
Net Tuition and Fees	511,337	536,255	549,824	545,868
Sales and Services of Auxiliary Enterprises	146,219	157,926	152,935	160,052
Federal Grants and Contracts	154,065	159,599	170,935	185,014
State/Local Grants and Contracts	53,264	61,449	60,835	63,540
Other Grants and Contracts	9,815	10,477	9,176	9,225
State Appropriations	326,925	367,879	399,538	404,942
Gifts and Contributions	27,668	38,542	30,998	31,403
Dividend and Interest Income	10,574	10,722	16,486	25,084
All Other Operating Revenues	33,620	36,761	30,401	30,040
Adjusted Total Operating Revenue	1,273,487	1,379,610	1,421,128	1,455,167
Unrestricted Operating Expenses				
Instruction	375,814	384,042	405,850	385,844
Academic Support	118,897	130,574	132,535	130,610
Institutional Support	103,871	109,146	105,868	101,388
Student Services	71,618	73,710	77,311	73,799
Public Service	20,233	19,542	21,005	19,730
Research	49,774	55,332	61,640	64,664
Auxiliary Enterprises	154,219	160,937	155,581	151,780
Student Aid	121,639	123,668	125,500	130,612
Operation and Maintenance of Plant	81,612	85,536	89,461	91,438
Depreciation	88,729	91,371	95,111	100,365
Interest Expense	54,061	34,631	38,678	44,883
Total Operating Expense	1,240,467	1,268,488	1,308,540	1,295,113
Adjusted Change in Net Assets from Operations	33,020	111,122	112,588	160,055
Unrestricted Non-Operating Revenues/(Expenses)				
Realized and Unrealized Gain (Loss) on Investments	(14,157)	3,822	12,477	20,458
Additions to Permanent Endowment	5,848	5,753	5,764	6,629
Capital Grants and Gifts	65	363	–	–
Other Non-Operating Revenues (Expenses)	14,429	4,995	15,014	3,123
Total Non-Operating Revenue (Expense)	6,185	14,933	33,256	30,210
Adjusted Change in Net Assets from Operations	33,020	111,122	112,588	160,055
Add Back: Interest Expense	54,061	34,631	38,678	44,883
Add Back: Depreciation	88,729	91,371	95,111	100,365
Total Pension Expense ^a	–	–	14,983	12,850
Actual Contributions ^a	–	–	12,319	13,888
Total Proportionate Fitch-Adjusted Pension Service Cost ^a	–	–	16,993	19,084
Cash Flow	175,811	237,123	249,040	304,265
Cash Flow Adjusted	175,811	237,123	244,366	299,069
Current Debt Service	108,754	81,857	117,080	119,226

^aDetailed pension notes not available prior to FY2017. Continued on the next page.
Source: Fitch Ratings, Fitch Solutions, Texas State University System (TX).

Financial Summary (Continued)

(\$000, Audited Fiscal Years Ended Aug. 31)	2015	2016	2017	2018
Balance Sheet – Assets				
Cash and Cash Equivalents	640,225	551,378	812,117	639,899
Investments	334,533	405,035	450,600	479,227
Total Cash and Investments	974,758	956,413	1,262,717	1,119,126
Property, Plant and Equipment, Net	1,413,534	1,550,849	1,743,752	1,958,618
Balance Sheet – Liabilities and Net Assets				
Fixed Rate Bonds Payable	906,530	859,304	1,218,678	1,150,415
Notes Payable	–	4,912	–	–
Commercial Paper	–	162	10,058	48,600
Debt Equivalents (5x Operating Lease Expense and Fitch-adjusted Net Pension Liability)	337,890	335,236	330,136	349,882
Adjusted Debt	1,244,420	1,199,615	1,558,872	1,548,897
Unrestricted Net Assets	258,961	320,699	341,151	312,328
Invested In Capital	513,871	691,545	514,835	757,456
Restricted Net Assets – Non-Expendable (Fitch-Adjusted)	274,410	165,228	435,226	233,163
Restricted Net Assets – Expendable (Fitch-Adjusted)	102,605	111,774	138,006	154,696
Total Net Assets	1,149,847	1,289,245	1,429,218	1,457,643
Balance Sheet - Resources and Liquidity				
Available Funds (AF)	700,348	791,186	827,492	885,963
Total Available Funds (University and Foundation) ^b	700,348	791,186	827,492	885,963
Statement of Cash Flows				
Net Cash Generated (Used) in Operating Activities	(282,539)	(249,815)	(265,802)	(302,911)
Additions of PPandE/Capital Assets	119,988	219,241	280,998	316,384
Payments on Bonds Payable	78,653	89,586	80,158	286,709
Cash Paid for Interest	66,159	72,847	36,922	50,963
Pension Plans^a				
Total Pension Liability (TPL, AAL)	–	–	664,644	762,396
Fiduciary Net Position (FNP, AVA)	–	–	518,422	626,461
Fitch Adjusted Total Pension Liability (TPL, AAL)	–	–	836,787	964,431
Fitch Adjusted Net Pension Liability (NPL, UAAL)	329,786	326,931	318,364	337,970
Fitch Adjusted Ratio of Assets to Liabilities (FNP/TPL, AVA/AAL) (%)	–	–	62.0	65.0
Total Pension Expense	–	–	14,983	12,850
Actual Contributions	–	–	12,318.75	13,888.36
Total Pension Service Cost	–	–	16,995.03	19,084.51

^aDetailed pension notes not available prior to FY2017. ^bExcludes campus foundations for data comparability reasons. Note: Fitch may have reclassified certain financial statement items for analytical purposes.

Source: Fitch Ratings, Fitch Solutions, Texas State University System (TX).

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