



**Rating Action: Moody's upgrades Stephen F. Austin State University's (TX) revenue ratings to Aa1; outlook stable**

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01 Sep 2023

New York, September 01, 2023 -- Moody's Investors Service has upgraded the revenue bond ratings for Stephen F. Austin State University, TX to Aa1 from A1 reflecting the creation of Stephen F. Austin State University, a member of The University of Texas System (SFA), as a new university within the University of Texas System (Aaa stable), and abolishment of Stephen F. Austin State University, effective September 1, 2023, as enacted by the Texas Legislature pursuant to SB 1055 of the 88th Texas Legislature, Regular Session. Concurrently, Moody's is withdrawing SFA's A1 issuer rating and ratings under review outlook, as SFA no longer exists. For SFA's revenue bonds, issued through the Board of Regents of Stephen F. Austin State University, the outlook is stable, reflecting the outlook of the University of Texas System (UT System). Total SFA debt as of fiscal end 2022 was \$200 million. Total debt of the UT System as of fiscal end 2022 was \$12 billion. This action concludes the review for upgrade initiated on August 25, 2023. Moving forward, Moody's will rate the Stephen F. Austin State University's debt under the University of Texas System.

Please click on this link [http://www.moody's.com/viewresearchdoc.aspx?docid=PBM\\_PBM908286761](http://www.moody's.com/viewresearchdoc.aspx?docid=PBM_PBM908286761) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

#### RATINGS RATIONALE

The upgrade of SFA's revenue bond ratings to Aa1 from A1 reflects SFA's integration into the UT System, with Permanent University Fund eligibility. The UT System now governs, operates, manages and controls SFA and its properties, including stewardship of SFA's outstanding revenue bonds; in addition, most of SFA's reserves are now managed by UTIMCO. While SFA is now a member of UT System's revenue financing system, its outstanding revenue bonds remain secured solely by the pledged revenues of the SFA enterprise as prior encumbered obligations, a distinct pledge compared to the UT System's broader revenue financing system pledge. The one notch rating distinction from the UT System's Aaa issuer rating considers the distinct SFA instrument-level revenue stream and narrower pledge compared to the UT System's broad system-wide pledge. Governance considerations are a key driver of this rating action, including financial strategies and risk management as well as management credibility and track record, given the UT System's strong centralized administration, robust reporting infrastructure, careful monitoring of business lines and history of successful execution of plans that enable effective management of a complex organization and investment portfolio.

The University of Texas System's Aaa issuer rating reflects exceptional strategic positioning derived from its strong brand recognition as one of the nation's largest higher education systems, with \$26 billion of operating revenue for fiscal 2022. The system maintains a preeminent reputation for high acuity healthcare and a substantial research enterprise. Healthy operating margins and deep reserves further support the highest credit quality and provide a favorable level of financial flexibility. Robust financial reserves of \$66 billion include UT System's two-thirds share of the Permanent University Fund (PUF) investments and land. The system also receives solid financial support from the State of Texas (Aaa stable), including some funding for debt service. Very strong central management also contributes to credit strength, with proactive measures to address emerging risks and codified policies and procedures. These strengths help mitigate the system's high exposure to potentially volatile healthcare revenue, significant capital needs and the complexity of managing a very large organization with multiple business lines that add resiliency to UT System's credit profile. The system has large though currently manageable pension and other post-retirement benefit liabilities.

## RATING OUTLOOK

The stable outlook reflects the UT System's core credit strengths and proactive management, which provide it with significant credit durability. We expect the system to maintain favorable operating performance including at the healthcare enterprise, robust financial reserves relative to debt and operations and manageable borrowing plans. It also incorporates expectations of a stable transition of the SFA enterprise to the UT System and sound debt service coverage of SFA's debt obligations.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- The SFA bonds are unlikely to be upgraded, because they are notched off UT System's Aaa issuer rating, but could have positive pressure if their pledged revenue base were broadened to match that of UT System's revenue debt

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant reductions in state financial support for operations or capital
- Weakened operating performance resulting in decreased pledged revenue coverage of debt
- Downgrade of UT System's issuer rating

## LEGAL SECURITY

SFA's revenue financing system debt is secured by a gross revenue pledge that includes SFA student tuition, fees an auxiliary revenue and unappropriated or reserve fund balances but excludes state appropriations. A rate covenant requiring SFA to set pledged revenues sufficient to meet financial obligations provides additional bondholder security. Fiscal 2022 pledged revenues of \$66 million provide a solid approximately 2.9x gross coverage of estimated maximum annual debt service (MADS) of \$22.7 million.

The UT System's Revenue Financing System (RFS) debt is a general obligation of the Board of Regents of The University of Texas System secured by a lien on a broad pledge of system-wide revenues, excluding state appropriations and other restricted funds. As of fiscal 2022, pledged revenues for RFS debt exceeded \$14 billion, providing excellent coverage of annual debt service on long-term RFS bonds of \$609 million.

## PROFILE

Stephen F. Austin State University, a member of the University of Texas System, is located in the east Texas city of Nacogdoches and has additional sites including a university farm, an experimental forest and a forestry field station. The university enrolled over 10,000 full-time equivalent (FTE) students in fall 2022 and had operating revenue of nearly \$199 million in fiscal 2022. SFA became a member of the UT System effective September 1, 2023.

The University of Texas System is one of the nation's largest systems of higher education, with a substantial research enterprise and world-renowned health care services. With fiscal 2022 revenue of \$26 billion, the system serves approximately 240,000 headcount students and 3.9 million outpatient visits across eight universities, plus the addition of Stephen F. Austin State University to the system for fiscal 2024, and five health institutions.

## METHODOLOGY

The principal methodology used in these ratings was Higher Education Methodology published in August 2021 and available at <https://ratings.moodys.com/rmc-documents/72158>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1288235](https://ratings.moodys.com/documents/PBC_1288235).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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