

CREDIT OPINION

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Texas Woman's University, TX

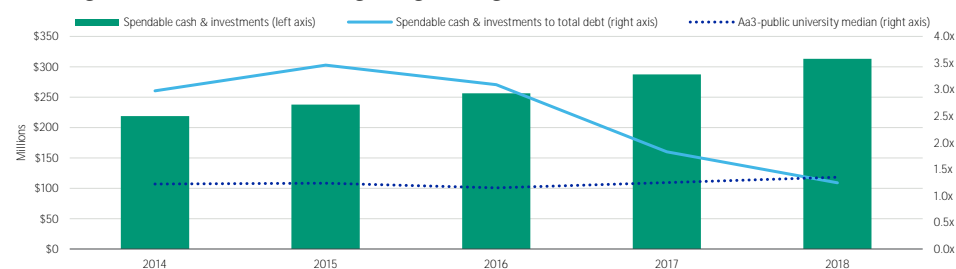
Update to credit analysis

Summary

[Texas Woman's University's](#) (Aa3 stable) strong credit profile reflects its unique market position as the only Texas public university serving a primarily female student body. TWU further benefits from its high-demand health professions programs and locations in the vibrant [Dallas-Fort Worth](#) and [Houston](#) metropolitan areas. Strong operating and capital support from the [State of Texas](#) (Aaa stable) enhance revenue diversity, and relatively high financial resources provide an ample cushion to expenses and for growing debt to support capital investment. TWU's operating performance has remained consistently robust driven by continued growth in operating appropriations and an emphasis on expense containment. Offsetting credit considerations include rising leverage to fund capital investment and historically modest gift support to provide alternative revenue streams for capital and program expansion. Further credit considerations include a sizable \$91 million public-private partnership (P3) for housing and dining and is included in the university's debt profile given strong strategic, financial, and operational links.

Exhibit 1

Growing flexible reserves offsetting rising leverage



Total debt includes P3 project
 Source: Moody's Investors Service

Credit strengths

- » Very good strategic position as a primarily female Texas public university in the demographically vibrant Dallas-Fort Worth and Houston metroplexes
- » Historically strong operating and capital support from Aaa-rated State of Texas
- » Strengthening spendable cash and investments (\$313 million) relative to operations (1.6x) along with strong unrestricted liquidity providing 550 monthly days cash
- » Consistently sound operating performance with fiscal 2014-18 operating cash flow margin averaging 15%

Credit challenges

- » Elevated debt burden with total debt (inclusive of P3 related debt) to operating revenue of 1.2x
- » Stagnating net tuition revenue growth, with net tuition per student down roughly 1% since fiscal 2016
- » Historically modest fundraising limits philanthropic support for program and facilities
- » Competitive student market with many in-state options

Rating outlook

The stable outlook reflects our expectation that growing financial resources and generally stable cash flow enable TWU to comfortably support increasing debt, particularly given expected debt service reimbursement from the state for a portion of the borrowing.

Factors that could lead to an upgrade

- » Significant growth in financial reserves relative to outstanding debt
- » Further diversification and growth of revenues, including research and philanthropic activity

Factors that could lead to a downgrade

- » Disruption or downturn in state financial support
- » Sustained deterioration of operating performance, with narrowing debt service coverage
- » Material increase in leverage beyond the current debt plans

Key indicators

Exhibit 2

TEXAS WOMAN'S UNIVERSITY, TX

	2014	2015	2016	2017	2018	Median: Aa Rated Public Universities
Total FTE Enrollment	12,316	12,380	12,620	12,552	12,530	29,353
Operating Revenue (\$000)	185,569	191,312	202,746	206,913	213,586	1,186,906
Annual Change in Operating Revenue (%)	6.3	3.1	6.0	2.1	3.2	3.2
Total Cash & Investments (\$000)	249,716	258,733	297,710	333,329	360,377	1,363,489
Total Debt (\$000)	73,527	68,683	82,826	157,100	251,400	643,972
Spendable Cash & Investments to Total Debt (x)	3.0	3.5	3.1	1.8	1.2	1.4
Spendable Cash & Investments to Operating Expenses (x)	1.3	1.3	1.4	1.5	1.6	0.7
Monthly Days Cash on Hand (x)	465	457	476	515	550	169
Operating Cash Flow Margin (%)	15.8	13.1	15.0	13.6	16.9	11.2
Total Debt to Cash Flow (x)	2.5	2.7	2.7	5.6	6.9	4.7
Annual Debt Service Coverage (x)	3.7	3.2	3.9	2.5	3.1	2.9

Fiscal 2018 total debt includes \$91 million in P3 related debt

Source: Moody's Investors Service

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Profile

TWU was established in 1901 and is the largest university primarily for women in the US, with its main campus in [Denton, Texas](#), and its largest satellite locations in Dallas and Houston located adjacent to major healthcare institutions and medical centers. The university's primary programs are in nursing and education in addition to offering programs in the sciences, liberal arts and business. In fiscal 2018, the university recorded operating revenue of \$214 million and for fall 2018 enrolled 12,530 full-time equivalent (FTE) students.

Detailed credit considerations

Market profile: stable demand driven by unique market position and demographically vibrant location

TWU's steady student demand and very good strategic position will continue due to its niche as a large, primarily female university, with strong healthcare professional programs and locations in the vibrant Dallas-Fort Worth and Houston areas. Fall 2018 FTE enrollment remained stable versus the prior year with early indications of modest enrollment growth for fall 2019. Favorably, the state benefits from sound economic and demographic trends; however, student market competition has heightened as out-of-state universities intensify student recruitment in the state.

TWU remains highly dependent on in-state students (95% of fall 2018 students) out-of-state representation has risen to 5% from 2% in fall 2014 driven by higher online enrollment and a reciprocity agreement for residents of the [State of Oklahoma](#). Graduate students comprise roughly 30% of FTE enrollment with the university planning to expand graduate offerings over the next few years with additional programs in areas such as public health and occupational therapy to further bolster graduate student enrollment.

Operating performance: strong state funding and modest expense containment leading to stronger cash flow

TWU's operating performance will continue to remain sound. Operating cash flow margins have averaged a healthy 15% since fiscal 2014, with modest improvement expected in fiscal 2019 driven by higher student charges (tuition will increase 3% for fall 2019), relatively stable enrollment and continued expense containment.

Strong operating and capital support from the Aaa-rated State of Texas is a key factor in TWU's credit quality. State operating appropriations, which include Tuition Revenue Bond (TRB) debt service reimbursement and fringe benefits, as well as Higher Education Assistance Fund (HEAF) support, comprised a significant 35% of fiscal 2018 operating revenue. HEAF funding will remain at roughly \$14.9 million annually through fiscal 2021. Operating appropriations will rise approximately 7% during the upcoming biennium (fiscal 2020-21).

Wealth and liquidity: growing financial reserves provide good cushion to operations; excellent liquidity

The university's wealth levels will continue to grow and provide good financial flexibility relative to peers. Spendable cash and investments of \$313 million (at fiscal end 2018) are up 43% since fiscal 2014, driven by management's emphasis on increasing reserves, positive investment returns and some donor support. Spendable cash and investments relative to operations of 1.6x is significantly stronger than the Aa3-public university median of 0.7x.

TWU has invested a portion of its investments with the Texas A&M University System (TAMUS) Cash Concentration Pool (CCP) and System Endowment Fund (SEF). Via this transfer and any future transfers, the university expects to take advantage of potential higher returns and lower management fees. Investment returns for \$176 million in funds invested with TAMUS were approximately 6% for the fiscal year ending August 31, 2018. An additional \$59 million of cash and investments is held with the TWU Foundation, which is managed by an external advisor.

TWU's philanthropic support has historically been modest, and management has been focused on improving the university's fundraising profile. The university is in the nascent stages of planning its next comprehensive campaign which it hopes to launch over the next couple years. Three-year average gift revenue (fiscal 2016-18) totaled \$3.9 million, significantly lower than the Aa3-public university median of \$26 million.

Liquidity

Monthly liquidity is excellent, at \$271 million in fiscal 2018, translating into 550 monthly days cash on hand. Funds invested in the TAMUS CCP (\$159 million as of 2/28/19), which are included in monthly liquidity, are liquid in 10 to up to 40 days (under certain circumstances), which we do not expect to impact TWU's ability to meet liquidity needs.

Under the formalized five-year management agreement between TWU and TAMUS, TWU's access to investments is subject to certain timing restrictions on the liquidation of assets in the case of termination of the management agreement. For the CCP, access ranges from 33% of assets within 30 days to 50% of assets within 60 days and 100% of assets within 90 days.

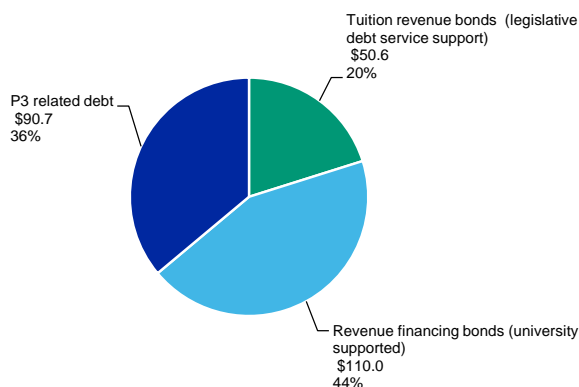
Leverage: higher but manageable leverage profile inclusive of P3 project

The university's leverage is rising but remains manageable given steady fiscal performance, growing spendable cash and investments and continued state support for debt service. Capital investments have increased leverage by over 3x since fiscal 2014 to fund various campus improvements which include new academic facilities. Favorably, approximately 20% of debt consists of Tuition Revenue Bonds (TRB) (see exhibit 3), which are a legal obligation of the university though debt service is reimbursed by the state which has historically made these additional appropriations without interruption.

While slightly below the Aa3-public university median of 1.4x, fiscal 2018 spendable cash and investments coverage of debt of 1.2x improves to 1.6x when excluding \$51 million in total outstanding TRBs. The university did not receive additional TRB debt authorization from the state for the upcoming biennium (fiscal 2020-21) and TWU has no near term plans for additional debt.

Exhibit 3

Legislatively approved debt service reimbursement for 20% of debt



Dollars in millions

Source: Moody's Investors Service

Included in the university's debt profile is roughly \$91 million in P3 debt related to a 875-bed student housing project and dining facility located on TWU's campus (scheduled for fall 2019 completion). A private developer financed and is developing the facilities; TWU will manage and operate the housing facility while a third party will manage the dining hall. The university will make lease payments on the dining facility that equal the debt service on its bonds. Given these links and the strategic importance of the project, we have included the project's related debt within the TWU's debt profile.

Debt structure

All of the university's debt is fixed rated and amortizing, allowing for predictable budgeting and annual debt reduction.

Debt-related derivatives

There are no debt-related derivatives.

Pensions and OPEB

The university has additional debt-like obligations largely through its participation in the state's multiple employer, cost-sharing defined benefit (DB) plan. TWU also maintains a defined contribution plan. Favorably, the state assumes responsibility for approximately three-quarters of the defined benefit pension plan and TWU's defined benefit pension expense is a low 2% of expenses. This support leads to a manageable DB pension plan obligation, with a Moody's three-year adjusted net pension liability (ANPL) of \$104 million. Including pension obligations and total debt, total adjusted debt to operating revenue is a moderately elevated 1.7x, higher than the Aa3-median of 1.1x.

The university does not administer an OPEB plan but instead participates in the state's Employee Retirement System. In fiscal 2018, TWU reported a \$20 million liability for its proportionate share of the OPEB plan.

Governance and management: continued emphasis on market differentiation; some leadership transition

TWU's very good strategic positioning benefits from solid state support and its location in the demographically strong state of Texas, as well as the university's current strategic plan's focus on strengthening TWU's brand as a strong provider of healthcare and education programs. Additionally, the university's leadership is focused on improving retention rates which declined moderately in fall 2018. The university's leadership team has undergone some transition with a new chief financial officer and a new VP of advancement joining the university in 2018; further, a search for a new provost is currently underway.

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