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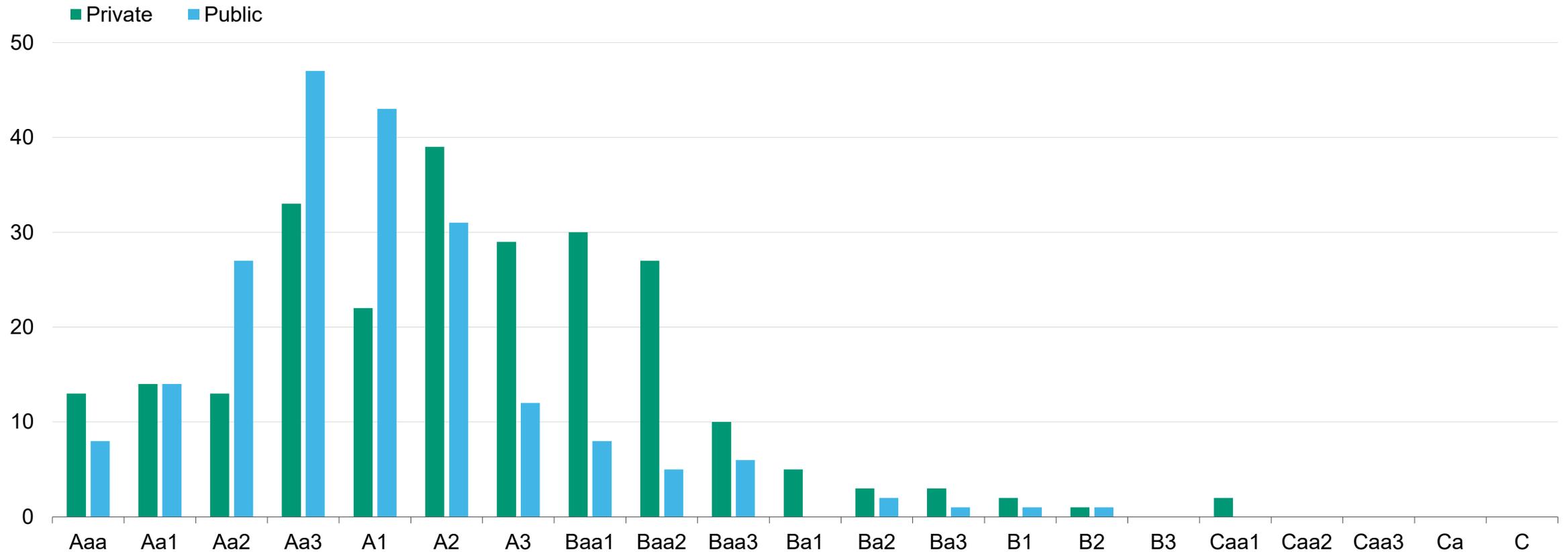
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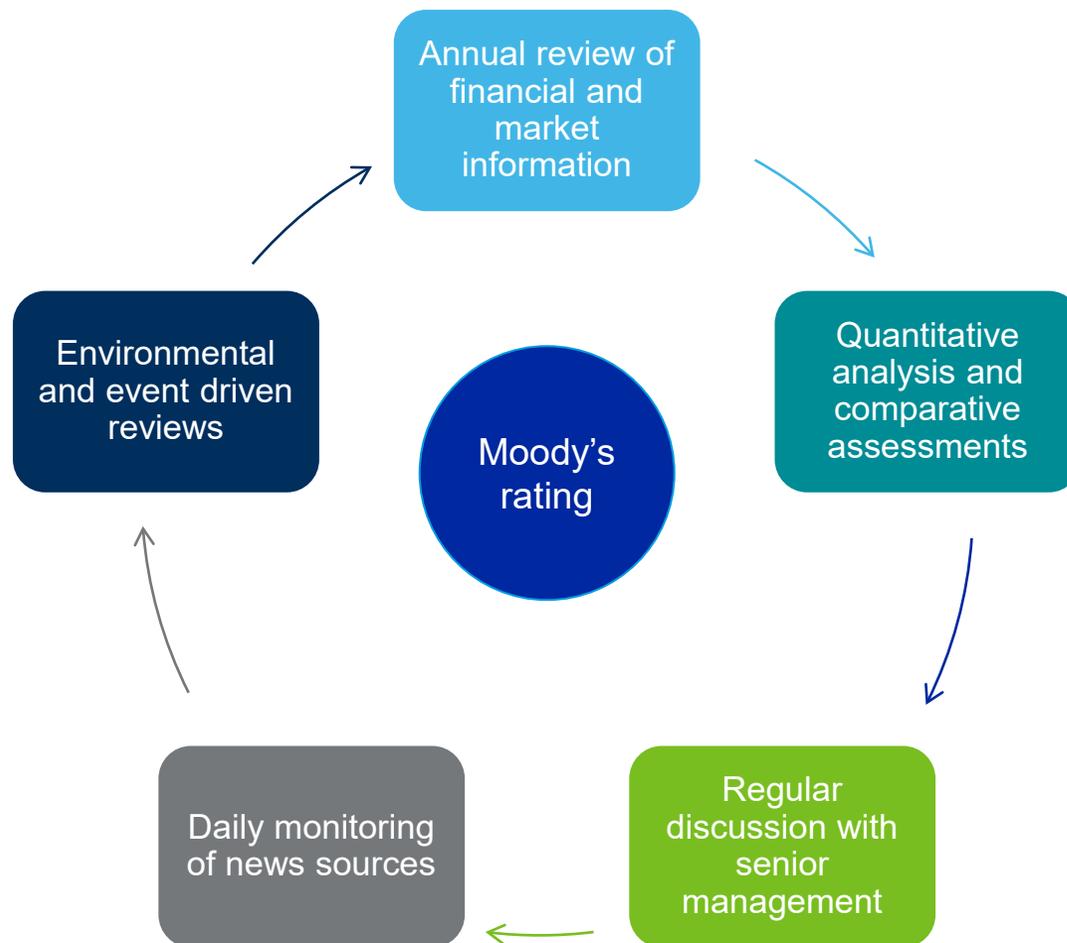
Higher education is a highly rated sector

Significant governmental support, healthy balance sheets and strong student demand underpin credit quality



Footnote: Rating distribution as of January 4, 2022

Long-term rating relationship with regular monitoring

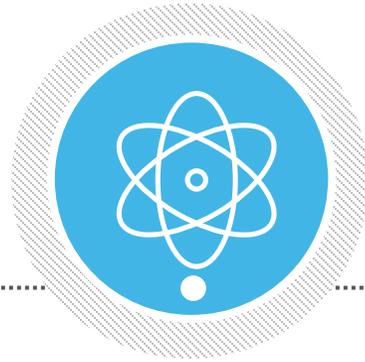


Ratings reflect multiple levels of analysis



Macroeconomic conditions

Macroeconomic conditions impact areas such as demand for specific programs, student's ability to pay, labor costs, etc.



Industry specific factors

Industry specific factors include areas such as student demand for specific types of experiences, governmental funding and oversight, shifting competitive landscape.



Institution specific analysis

Competitive and financial factors unique to the specific institution.

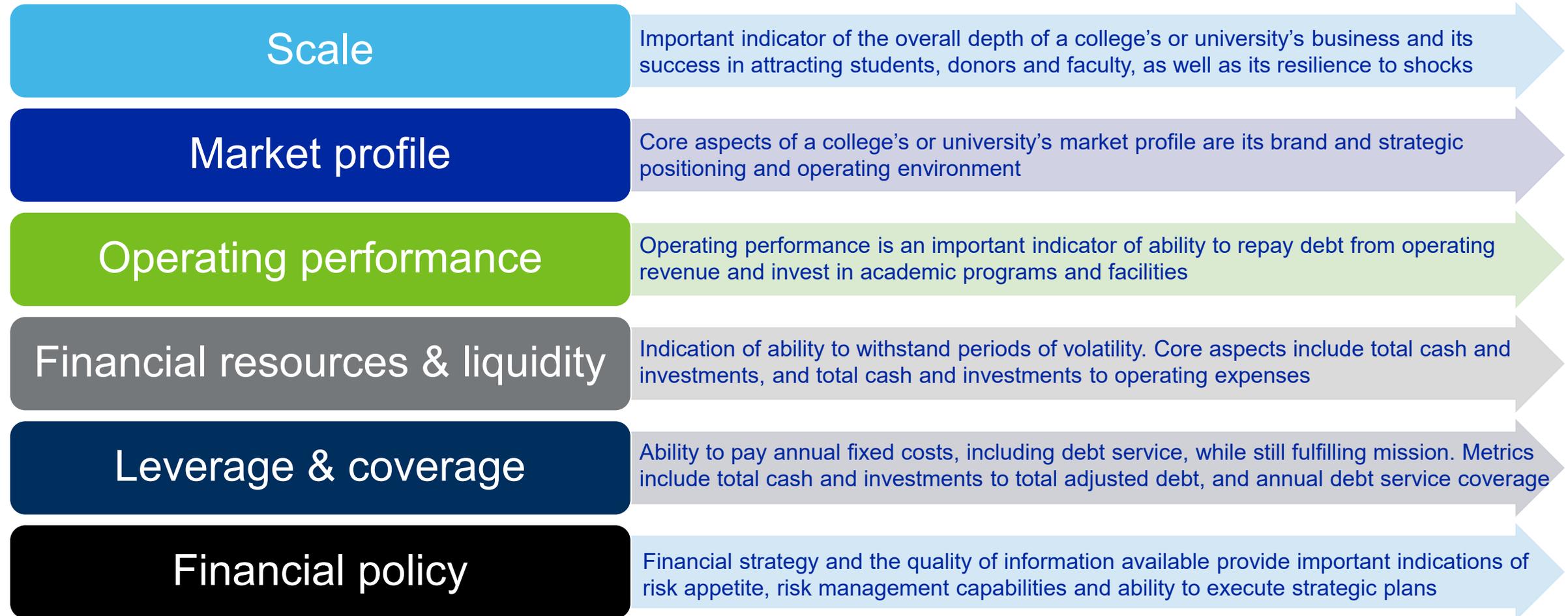


University position relative to peers

The relative placement of the institution compared to peers and competitors, with rating consistency across sectors.

Methodology includes quantitative & qualitative factors

Scorecard is a tool but not the methodology



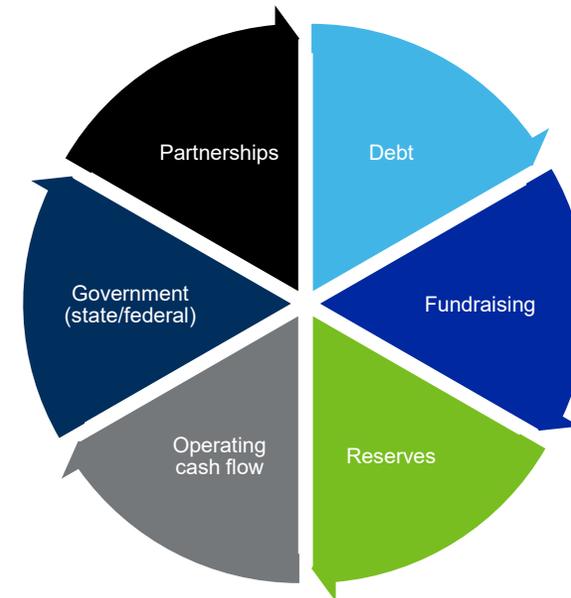
Certain other considerations remain important drivers of credit quality though they may not be included in the scorecard

- » Multi-year trends
- » Environmental, social, and governance (ESG) considerations
- » Marketable real estate
- » Regulatory considerations
- » Financial controls
- » Liquidity
- » Additional metrics
- » Event risk
- » Health care operations
- » Government and institutional support

Financially stronger universities able to tap multiple funding sources

- » Well-developed multiple year capital plan provides good insight into how a university thinks about its competitive position
- » A well formulated capital plan will align with a broader strategic plan
- » Various approaches to funding capital needs reflect management's assessments of near-term and longer-term risks
 - Not all universities benefit from the same diversity of funding sources
- » Ongoing low interest environment fueling substantial debt issuance
 - Borrowing today for tomorrow's needs

Universities benefit from diverse funding sources to fund capex needs for academic, student housing, athletics and other facilities



Source: Moody's Investors Service

Operating environment in Texas is generally credit friendly



SECTOR COMMENT 1 November 2021

✓ Rate this Research

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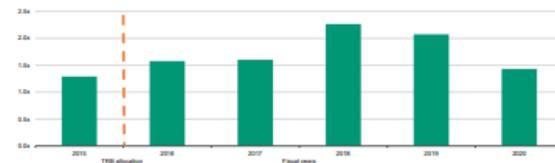
Higher Education – Texas

Texas' support for capital projects is credit positive for public universities

On October 25, the [State of Texas](#) (Aaa stable) enacted legislation authorizing its 10 public universities and university systems to issue a combined approximately \$3.3 billion in bonds (tuition revenue bonds or TRBs) for capital projects. Debt service will be reimbursed through funds allocated from state general revenue appropriations, though some federal funds could potentially be used. The infusion of state financial support is credit positive for Texas public universities because it will lead to more rapid investment in key capital projects to bolster research and advance academic priorities.

State support is an important source of funding for Texas public university capital investment. The last round of similar debt service reimbursement for tuition revenue bonds began in fiscal year 2016 (August 31 fiscal year-end). As a result, average capital spending at public universities and systems increased for several years (see Exhibit 1) as they undertook major capital projects. A similar increase in investment in facilities will likely result from this round of funding, helping advance universities' strategic positioning. As universities compete for students, faculty, research grants and donors, the ability to make ongoing investments in facilities and programs will be integral to long-term competitiveness.

Exhibit 1
Texas public universities benefited from a capital spending increase over a multiyear period
Average annual capital spending after tuition revenue bonds (TRBs) authorized in 2015



Source: Moody's Investors Service

- » Generally steady state operating support
- » Very good capital support relative to most states
- » Research support
- » History of support for universities confronting financial strain

In addition:

- » Stronger population growth and demographics than many states

Global credit themes affecting higher education



Reshaped economies

- » High susceptibility to inflation and labor shortages, since over 50% of expenses relate to compensation
- » Economic shifts and changes in job market creates new demands for credentials and programs
- » Rebound in economy leads to losses of enrollment at community colleges and regionals



Debt sustainability

- » Universities have taken advantage of low borrowing costs to refinance outstanding debt at lower cost
- » Colleges also locked in lower rates over the long term to invest in strategic capital projects
- » Entities that did become highly leveraged will be more exposed to any financial market volatility



Policy shifts

- » Supportive federal environment, with extra student aid and funding for minority-focused colleges likely
- » State policies and greater politicization of academic issues are complicating operating environments
- » More open immigration policies and focus on new national strategy will bolster international enrollment



New technologies

- » Online teaching and digitization of recruitment and administration require significant investment
- » Expansion of online providers will offer competition, especially as pricing becomes more of a focus
- » Cyber risk will continue to rise with greater use of technology and the migration to cloud storage



Path to net zero

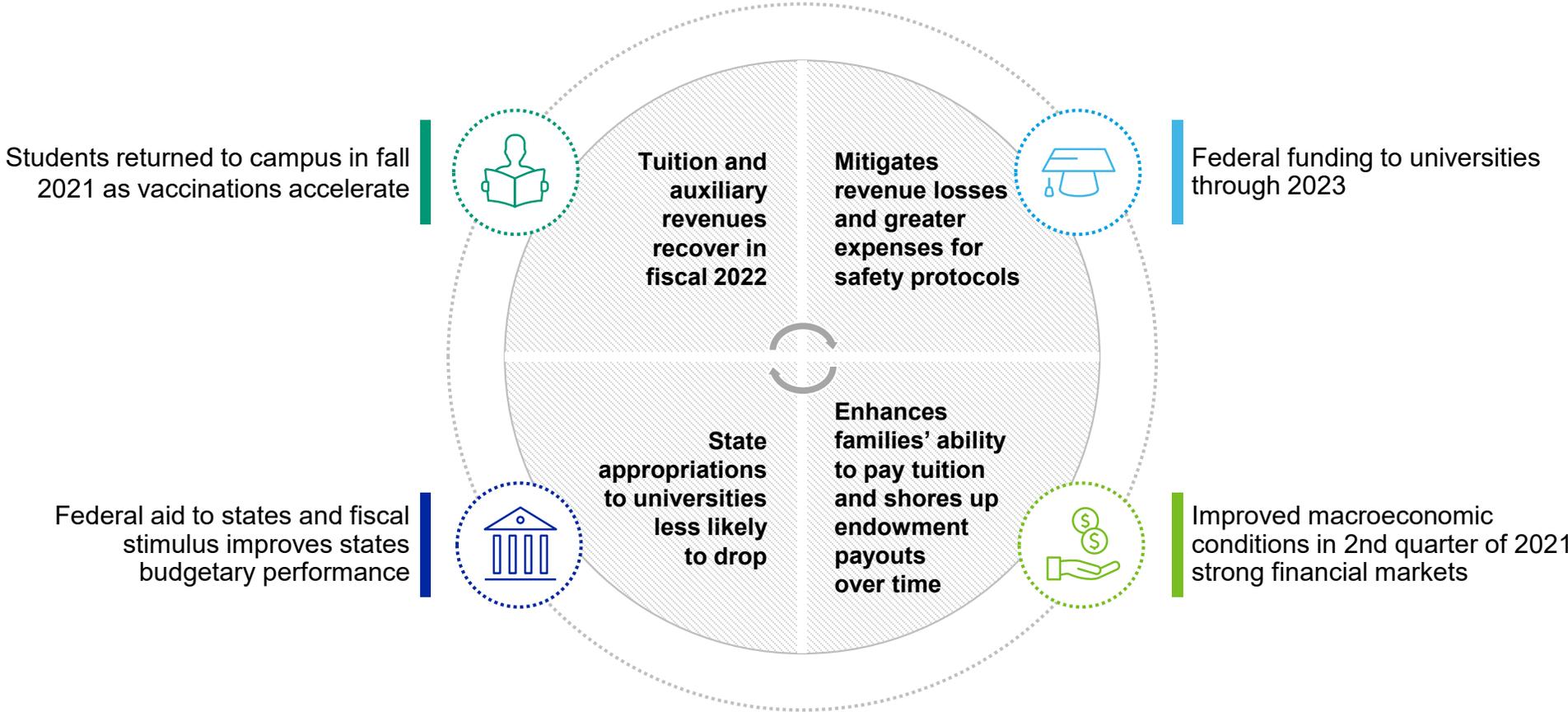
- » Many universities are implementing net zero energy systems and buildings
- » Research departments are working on developing new technologies to address decarbonization
- » Sector environmental risk is not high but liable to affect colleges in regions exposed to severe weather



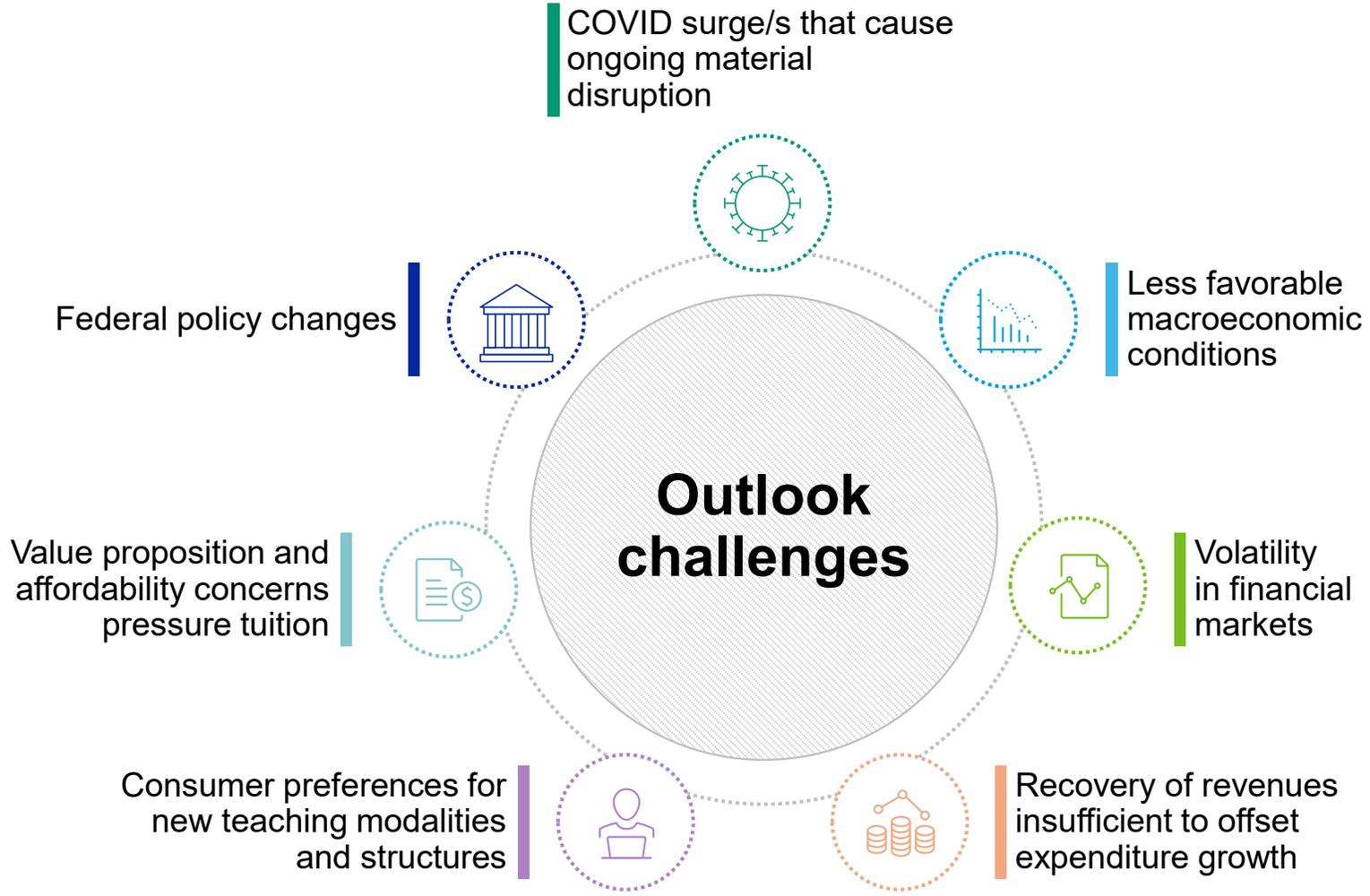
Inequality & social risk

- » Cost of student support to rise amid lower academic preparedness and wellness issues due to COVID
- » Financial aid will rise as colleges respond to growing student need and affordability of higher education
- » Falling numbers of high-school graduates will hit enrollment and intensify competition, price pressures

Sector outlook is currently stable, reflecting improved revenue prospects over next 18 months



Key challenges to outlook





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Questions and answers

Higher Education

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