Research Update:

University of Houston System Bond Ratings Raised To 'AA+' On Improved Operations, Financial Position; Outlook Stable

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Overview

- S&P Global Ratings raised its rating on the University of Houston System Board of Regents' various fixed-rate consolidated revenue and refunding bonds, issued for the University of Houston System (UHS), to 'AA+' from 'AA'.
- In addition, S&P Global Ratings affirmed its 'A-1+' short-term rating on UHS' commercial paper (CP) program.
- The outlook, where applicable, is stable.
- The upgrade reflects our view of UHS' improved operations and financial position, in part due to the creation of the Texas University Fund (TUF). The $4.2 billion fund, held by the state for the benefit of four eligible university systems, effectively serves as an additional research endowment for UHS. In addition, UHS has increased its enrollment and research in recent years.

Rationale

Security

Securing UHS' consolidated revenue and refunding bonds are pledged revenues, which include a variety of tuition, fees, grants, and other income that we consider equivalent to an unlimited student-fee pledge.

As of Aug. 31, 2025, the system had $1.9 billion in debt outstanding, which includes $1.8 billion in revenue bonds and $21.0 million in its CP program (which remained outstanding as of Sept. 30, 2025). The revenue bonds include $474.4 million in capital construction assistance projects (CCAPs), which receive debt service support from the state. Although Texas is not legally obligated to pay debt service on the CCAPs, it has a long history of funding these commitments.

The system might issue additional debt (not as CCAPs) during the two-year outlook period. We will incorporate the additional debt in our analysis when details are made available.

The 'A-1+' CP rating reflects our view of the university's overall credit quality, including UHS' authorized $125 million CP program. The CP rating reflects the university's ability to cover any failed rollovers on CP from its unrestricted (non-endowed) liquid funds available with same-day liquidity, which totaled approximately $642 million as of Sept. 30, 2025, as the CP has no other dedicated credit or liquidity support.

Credit highlights

We assessed UHS' enterprise risk profile as extremely strong, characterized by a large enrollment base, an effective leadership team, and good retention rates. We assessed the system's financial risk profile as very strong, characterized by a track record of robust operating surpluses, and excellent financial resources, bolstered by substantial additional investments held in the TUF. Together, these factors lead to an anchor of 'aa+' and a final rating of 'AA+'.

The rating further reflects our view of UHS':

- Solid support from the state of Texas, constituting approximately 18% of adjusted operating revenue in fiscal 2025, in addition to a capital component specifically directed toward certain projects funded with CCAPs;
- Favorable location, drawing a majority of its students from the Houston area, which has positive demographic trends;
- Strong research presence, with an R1 Carnegie classification; and
- Impressive fundraising, with good progress on its current $1 billion campaign.

Credit factors that to some degree offset the preceding credit strengths include our opinion of the university's:

- High 8.3% maximum annual debt service (MADS) burden, although this number drops to about 5.5% if debt service on CCAPs is excluded; and
- Potential additional debt in the outlook period.

Founded in 1977, UHS is a comprehensive, multi-campus, co-educational institution offering baccalaureate and graduate degree programs throughout southeastern Texas. It is the third-largest system in the state, with more than 70,000 students, and includes three universities and off-campus teaching centers in Sugar Land, Pearland, West Houston, Northwest Houston, and the Texas Medical Center, serving the Houston and Gulf Coast regions of Texas. The three universities are complementary institutions and their campuses serve the specific educational needs of the communities in which they are located: University of Houston (UH), University of Houston-Clear Lake (UHCL), and the University of Houston-Downtown (UHD).

Effective Sept. 1, 2025, the University of Houston-Victoria was transferred to the Texas A&M System from UHS to better align that campus' programming and workforce development. The Victoria campus accounted for a small portion of UHS' operations. In fiscal 2025, it comprised approximately 5% of UHS' full-time-equivalent (FTE) enrollment and generated less than 4% of the system's tuition and fee revenue. Given UHS' impressive growth trends and robust operations at the organization's other institutions, we do not believe the transfer of the Victoria campus causes a material change to our view of the system.

Environmental, social, and governance

We analyzed UHS' environmental, social, and governance factors related to the system's market position and financial performance. We view social and governance factors as neutral in our credit rating analysis. We view physical risk as elevated due to the system's location near the Gulf Coast that exposes UHS to acute and chronic environmental physical risks from climate hazards such as hurricanes and inland flooding. However, the system carries property insurance coverage for tropical weather events and is self-insured for environmental liability exposure.

Outlook

The stable outlook reflects our expectation that UHS will continue to generate robust operating margins, supported by growing enrollment, good state appropriations, and TUF distributions. We also expect the system will issue modest additional debt in the outlook period.

Downside scenario

We could consider a negative rating action if UHS issues a larger-than-expected amount of additional debt that results in weaker financial resource ratios, or if demand metrics weaken materially from current levels.

Upside scenario

We could consider a positive rating action if UHS generated significant growth in financial resources, such that debt ratios were commensurate with a higher rating. We would also expect the system to improve its demand profile, with improved selectivity and retention rates, while continuing to generate robust surpluses.

Credit Opinion

Enterprise Risk Profile – Extremely Strong

Market position and demand

In fall 2025, UHS enrolled 67,399 students on a full-time equivalent (FTE) basis. Although this is lower than the system's fall 2024 enrollment of 69,273, that year included 3,233 FTE students at the Houston-Victoria campus, which transferred to the Texas A&M System in September 2025. Excluding the Victoria campus, enrollment at the system rose by a solid 2.0%, continuing a recent positive trend. In particular, UH welcomed record enrollment with its largest-ever first-year class. Management expects enrollment growth will continue, spurred by improvements in the system's market position as well as favorable demographic trends in the Houston area. In addition, the system is growing high-demand programs in nursing, health sciences, engineering, and technology.

Demand for UH remains good, with more than 44,000 first-year applications received for fall 2025. Both selectivity and matriculation are consistent with those of peers, at 79% and 24%, respectively. The system's draw is largely regional and 87% of students are from Texas. International students make up approximately 7% of FTE enrollment.

Management and governance

A 10-member, governor-appointed board of regents governs the system. Since our last review, the board has experienced normal rotations and the leadership team has had few transitions. We view the leadership team as stable, with conservative budgeting practices and ambitious targets. We expect the system's skilled management of complex operations will remain a key credit strength

The primary goal of the system’s 2021-2028 strategic plan, "Together, We Rise, Together, We Soar," is to become a top 50 public university. Overarching goals of the plan include student success, nationally competitive research, social responsibility, nationally relevant athletics, and competitive funding. Although the plan sets ambitious targets for each goal, we view the scope of the plan favorably and believe the system is making impressive progress.

Financial Risk Profile--Very Strong

Financial performance

UHS has a track record of robust operating performance, which we consider a key credit strength. In fiscal 2025, the system generated an impressive surplus of $287.0 million, equal to 14.1% of adjusted operating expenses. We expect continued positive operations in the outlook period.

The system has good revenue diversity, with 42% of fiscal 2025 adjusted revenues from student tuition, auxiliaries, and fees; 19% from grants and contracts; 18% from state appropriations; 2% from gifts; and the remaining 19% from other sources.

Tuition and fees remain affordable. Tuition for in-state students has remained flat for five years at $8,685. Non-resident tuition has moderately increased but remains competitive at $21,395. Discounting fell in fiscal 2025, in part due to more precise measurement to conform with revised accounting guidance.

We view UHS' state support as notably strong, with growing operating and benefits appropriations supplemented by funds for capital needs. Appropriations measured $427.6 million in fiscal 2025, including the system’s TUF distribution of $63.8 million. Management expects state support to increase in the 2026-2027 biennium.

Research revenues grew in fiscal 2025, due in part to approximately $150 million of one-time funding from the state. Management is targeting growth in this category as part of its goal to become a top 50 public university. UHS also generates a steady inflow of royalty income associated with the development and commercialization of two drugs: one to treat epilepsy and one to treat cancer.

The system expects additional expenses related to athletic revenue sharing, following new NCAA rules that allow schools to pay student athletes directly. UHS plans to largely offset these expenses with increased revenue from the Big 12 conference, which the system joined on July 1, 2023.

Financial resources

In our view, UHS' current financial resources are sufficient for the rating relative to operations and below average relative to debt. Cash and investments totaled $3.3 billion at fiscal year-end 2025, which represented 165% of operations and 179% of debt.

In addition to UHS' financial resources, the system benefits from the TUF, which is a $4.2 billion institutional endowment fund established by the state on Jan. 1, 2024. The fund is allocated among four eligible universities in the state: Texas Tech, Texas State University, the University of North Texas, and UHS. UHS' portion is approximately $1.3 billion of the initial amount approved, and the system is entitled to receive a distribution from the fund annually. The funds go directly toward research activities and cannot be used to pay debt service. In fiscal years 2024 and 2025, UHS received TUF distributions of $48.3 million and $63.8 million, respectively. Although the TUF endowment is not included in the financial statements of UHS, we view these funds as a material addition to state support that will allow the system to significantly increase research operations and maintain excellent demand.

UHS enjoys considerable annual support from its large endowment fund, which is held at the system level. As of fiscal 2025, the endowment had a market value of $1.3 billion. The endowment's target allocation mix is fairly conservative, at 45% equities, 39% private markets, 10% risk reduction assets, and 6% diversifying growth assets. We believe UHS has good fundraising capacity. The system has raised more than$700 million toward its current $1 billion campaign, "Can't Stop Houston."

Debt and contingent liabilities

We view the system's MADS burden of 8.3% as moderately high, but recognize that it is manageable when debt service support on CCAPs is considered. The system has several potential capital projects in the pipeline, including additional housing for its growing student body.

UHS participates in joint contributory retirement plans administered by the Teachers Retirement System of Texas. As of Aug. 31, 2024, the overall pension funded status was healthy at 78%. As of fiscal year-end 2025, the net pension and other postemployment benefit liabilities reflected on UHS' financial statements were $300.4 million and $517.4 million, respectively. (For more information on these plans, see the state of Texas report, May 22, 2025.)

University of Houston System, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--					Medians for 'AA' category rated public colleges and universities
	2026	**2025**	**2024**	**2023**	**2022**	**2024**
Enrollment and demand						
Full-time-equivalent enrollment	67,399	69,273	67,933	67,602	69,273	37,533
Undergraduates as a % of total enrollment	84.8	83.3	82.8	82.8	83.5	80.3
First-year acceptance rate (%)	78.5	78.4	74.5	71.5	72.0	74.5
First-year matriculation rate (%)	23.9	29.5	29.8	30.4	30.5	25.4
First-year retention rate (%)	86.0	87.0	86.0	85.0	85.0	86.1
Six-year graduation rate (%)	66.0	65.0	65.0	63.0	62.0	71.0
Financial performance						
Adjusted operating revenue ($000s)	N.A.	2,318,256	2,011,092	1,916,656	2,030,114	MNR
Adjusted operating expense ($000s)	N.A.	2,031,238	1,899,007	1,819,136	1,807,796	MNR
Net adjusted operating margin (%)	N.A.	14.1	5.9	5.4	12.3	1.5
Tuition discount (%)	N.A.	21.6	29.3	25.4	29.1	29.2

University of Houston System, Texas--enterprise and financial statistics

	--Fiscal year ended Aug. 31--					Medians for 'AA' category rated public colleges and universities
	2026	2025	2024	2023	2022	2024
Student dependence (%)	N.A.	42.3	46.4	47.1	44.6	36.0
State appropriations to revenue (%)	N.A.	18.4	20.4	16.8	16.2	19.1
Research dependence (%)	N.A.	18.6	11.0	14.2	14.0	15.1
Financial resources						
Endowment market value ($000s)	N.A.	1,274,843	1,161,503	1,019,350	984,212	1,454,416
Cash and investments including foundation ($000s)	N.A.	3,343,748	2,953,472	2,819,900	2,691,554	2,961,293
Cash and investments including foundation to operations (%)	N.A.	164.6	155.5	155.0	148.9	123.4
Cash and investments including foundation to debt (%)	N.A.	178.9	171.1	159.7	145.9	323.7
Debt						
Total debt with foundation ($000s)	N.A.	1,868,541	1,726,535	1,766,096	1,845,288	1,012,913
Current MADS burden (%)	N.A.	8.2	8.4	8.5	8.4	3.7
Average age of plant (years)	N.A.	14.3	13.4	13.5	13.4	13.4

Total adjusted operating revenue = unrestricted revenue less realized and unrealized gains/losses and financial aid. Total adjusted operating expense = unrestricted expense plus financial aid expense. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. Current MADS burden = 100*(maximum annual debt service expense/adjusted operating expenses). Cash and investments = cash + short-term and long-term investments. Average age of plant = accumulated depreciation/depreciation and amortization expense. N.A.--Not available. MNR--Median not reported. MADS--Maximum annual debt service.

Ratings List		
Upgraded;Outlook Action		
	To	**From**
Education		
University of Houston System, TX Unlimited Student Fees	AA+/Stable	AA/Positive
Ratings Affirmed		
Education		
University of Houston System, TX Unlimited Student Fees	A-1+	

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