S&P Global
Ratings

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Summary:

Regents of the University of Minnesota University of Minnesota; CP; Public Coll/Univ - Unlimited Student Fees

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Credit Profile		
US$292.395 mil GO rfdg bnds (University of Minnesota) ser 2017B due 12/01/2036		
Long Term Rating	AA/Stable	New
US$118.43 mil GO bnds (University of Minnesota) ser 2017A due 09/01/2042		
Long Term Rating	AA/Stable	New
US$13.285 mil GO taxable rfdg bnds (University of Minnesota) ser 2017C due 04/01/2029		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Regents of the University of Minnesota (UM)'s series 2017A, 2017B (refunding), and series 2017C (taxable refunding) general obligation (GO) bonds. At the same time, we affirmed our 'A-1+' short term rating on UM's outstanding series A, B,C, D, E (taxable), and F commercial paper (CP) notes. Finally, we affirmed our 'AA' long-term rating on the university's existing debt, various series. The outlook on the long-term rating is stable.

We have assessed the University of Minnesota's enterprise and financial risk profiles as very strong. The enterprise risk profile reflects stable enrollment with very good selectivity and student quality. The financial risk profile reflects the university's improved financial performance with positive results on an adjusted full-accrual basis for each of the past two years following essentially break-even performance in fiscal years 2012 through 2014, available resources to operations and debt that we view as somewhat low for the rating category (offset by just over 20% of debt supported by state funds), and a moderate maximum annual debt service (MADS) burden. The combined enterprise and financial risk profiles lead to an indicative stand-alone credit rating of 'aa+'. Our criteria indicate the final rating can be within one notch of the indicative credit level. In our view, the final long-term rating of 'AA' on the university's bonds better reflects UM's somewhat modest available resources for the rating category compared with medians and peers.

The 'A-1+' short-term rating, which applies to the university's authorized CP program, reflects our opinion of UM's credit quality and its provision of self-liquidity in the event of CP rollovers. As of June 30, 2017, the university held cash and high-quality, short-term fixed-income assets of approximately $1.12 billion, which provides ample liquidity at 4.3x pro forma coverage of the approximately $262.32 million in CP that is outstanding.

The 'AA' long-term rating reflects our view of the university's:

- Position as Minnesota's flagship research university and land-grant institution;
- Stable enrollment with rising freshman applicants and matriculants such that enrollment should grow slowly in the

near future with the school's membership in the Big 10 Conference enhancing its solid academic, research, and sports programs;
- Improved financial performance on an adjusted full-accrual basis in fiscal years 2015 and 2016;
- Manageable pro forma MADS burden of about 3.97% of adjusted operating expenses in fiscal 2016; and
- Favorable philanthropic support with slightly in excess of $300 million in pledges and contributions received in each of the past three fiscal years.

Offsetting factors include our view of UM's:

- Significant pro forma debt of $1.48 billion (including the current issuance and planned debt issuance of $221 million over the next two fiscal years while we note the university will pay off about $180 million in debt over that same period; and
- Modest unrestricted available resources for a public flagship institution, with adjusted unrestricted net assets (UNA) of $1.3 billion equal to 37% of 2016 adjusted operating expenses and about 90% of pro forma debt $1.48 billion (including state-supported debt).

The university has approximately $1.48 billion in pro forma debt (including the current debt issuance). The pro forma MADS burden remains moderate, in our view, at about 3.97% of fiscal 2016 expenses.

Management expected to use the net proceeds of the series 2017A bonds for various capital projects; the net proceeds of the series 2017B bonds to advance refund and defease the series 2009A, 2009C, 2011A, and 2011D bonds; and the net proceeds of the series 2017C bonds to advance refund and defease the series 2009B bonds.

All of the university's debt is fixed rate, except for its CP program, which has $238.5 million currently outstanding. Therefore, at this time, about 83% of the university's total pro forma debt (including the current CP issuance) is fixed rate.

UM, established in 1851, is both the flagship university in Minnesota and the state's designated land-grant college for agriculture. The main campus is in Minneapolis-St. Paul, and the university has four smaller campuses in Duluth, Crookston, Morris, and Rochester. UM receives about the same amount of state appropriations as the Minnesota State Colleges and Universities system. In addition to its undergraduate programs, UM offers graduate and professional programs in medicine, law, engineering, business, dentistry, pharmacy, and veterinary medicine, among others. We understand the university remains in dialogue with UMP (UM Physicians), a component unit of the university, and Fairview Health Services to create a single, integrated academic health system to include the Fairview system and the entirety of UMP. An attempt to create such an integrated system last year that was to be known as M Health, a separate legal entity, did not come to fruition.

Enrollment is stable, in our view, with favorable demand metrics. The university is increasingly selective in its admissions process, which we view positively. Enrollment for fall 2016 was 67,480, an increase of 1.2% from the fall 2015 enrollment of 66,651. About 65% of students are undergraduates, approximately 71% of whom come from Minnesota. With about 52,000 students in fall 2016, the Twin Cities campus is the largest in the UM system. Management reports expectations for stable enrollment in fall 2017.

UM's financial performance is improving with positive results recorded on an adjusted full-accrual basis for each of the past two years. Financial performance has been consistently positive over the past five years on a cash basis. When we refer to an adjusted full-accrual basis, we take into account adjustments we make for investment gains and losses, as well as certain other items consistent with our revised higher education criteria. After we adjusted UM's fiscal 2016 operations for realized and unrealized gains and losses for the year, as well as for approximately $54 million in endowment draws, and $40 million in recurring capital appropriations for operating expenses, we estimate that the university produced a $94 million surplus for the year on a full-accrual basis, or an operating margin of 2.63%. However, when we include about $213 million of depreciation expense in fiscal 2016, the results on a cash basis are much more favorable. Management reports that fiscal 2017 operating results are tracking to the current-year budget, and are likely to be better than fiscal 2016.

For the fiscal 2016-2017 biennium, state funding levels were up (4.4% for fiscal 2016 and another 0.1% for fiscal 2017). Fiscal 2016 state funding was about $625 million; the fiscal 2018 state appropriations increased 5.7% from the beginning fiscal 2018 base level to $659 million. UM is also a major research university and funds from grants and contracts account for 24% of total adjusted operating revenue. The university reports its sponsored grants and contract awards totaled $787.6 million in fiscal 2016, up 4.5% from the $753.6 million awarded in fiscal 2015.

Available resources are modest, in our view, for a public flagship university, but adequate to support the rating, although lagging somewhat in comparison to other comparably rated flagship institutions. However, this is due in part, we believe, to approximately $409 million in debt on the university's balance sheet that is supported by third parties, the largest component of which is $252 million supported by state funds. At June 30, 2016, the university had only about $458 million of UNA, down from $812 million in fiscal 2014, due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 in fiscal 2015. Adjusted UNA (which include $223 million of UNA of all component units, as well as an adjustment for GASB 68) totaled about $1.3 billion, equal to 37% of 2016 adjusted operating expenses, and 90% of pro forma postissuance debt ($1.5 billion).

UM benefits from a substantial endowment. As of June 30, 2017, it had $1.35 billion in the university-held endowment and an additional $2.15 billion in the University of Minnesota Foundation. In addition, it had an additional $1.1 billion in its temporary investment pool (short-term reserve) fund. The endowment draw on the university-held endowment is 4.5% of a rolling 60-month market value average, which we consider standard. The university also has a favorable fundraising record and continues to raise funds on a project-by-project basis. Management reports that fiscal years 2016 and 2017 were solid fundraising years with over $300 million raised in each year.

For more information on the university, please refer to the full analysis published on Feb 9, 2017, on RatingsDirect.

Outlook

The stable outlook reflects our continued view that over the next two years, UM's enrollment and demand trends will remain firm and its financial operating performance on an adjusted full-accrual basis will remain positive and become more robust. This will facilitate growth in available resources while additional debt issuance, net of principal amortization on outstanding debt, is expected to be modest.

Downside scenario

Credit factors that could lead to a negative rating action during the outlook period include an unexpected decline in enrollment, operating deficits on a full-accrual adjusted basis, a decline in available resource to operations and debt ratios relative to peer institutions, or significant additional debt issuance without a commensurate increase in resources.

Upside scenario

We believe a positive rating action is unlikely during the outlook period. However, we could consider a positive rating action if enrollment grows substantially and financial performance remains positive and firm on an adjusted full-accrual basis while available resources increase significantly and additional debt is held to a minimum.

Ratings Detail (As Of August 29, 2017)		
Univ of Minnesota Crookston Dorm bonds ser AB		
Long Term Rating	AA/Stable	Affirmed
Regents of the University of Minnesota, Minnesota		
University of Minnesota, Minnesota		
Regents of the University of Minnesota (University of Minnesota)		
Long Term Rating	AA/Stable	Affirmed
Regents of the University of Minnesota (University of Minnesota) commercial paper nts (University of Minnesota) ser F dtd 02/15/2017 due 02/15/2042		
Short Term Rating	A-1+	Affirmed
Regents of the University of Minnesota (University of Minnesota) CP		
Short Term Rating	A-1+	Affirmed
Regents of the University of Minnesota (University of Minnesota) CP - 2007		
Short Term Rating	A-1+	Affirmed
Regents of the University of Minnesota (University of Minnesota) GO bnds		
Long Term Rating	AA/Stable	Affirmed
University of Minnesota Regents (University of Minnesota) CP - D		
Short Term Rating	A-1+	Affirmed
University of Minnesota Regents (University of Minnesota) CP - 2005		
Short Term Rating	A-1+	Affirmed
Univ of Minnesota ser 2004A, 1996A		
Long Term Rating	AA/Stable	Affirmed
University of Minnesota at Morris, Minnesota		
University of Minnesota, Minnesota		
University of Minnesota at Morris rev bnds ser 72 A B		
Long Term Rating	AA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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