New York, April 12, 2019 -- Moody's Investors Service has assigned Aa1 ratings to University of Minnesota's (MN) proposed Series 2019 General Obligation Bonds, specifically the $107 million of General Obligation Bonds, Series 2019A (2044 maturity), $52 million of General Obligation Refunding Bonds, Series 2019B (2029 maturity) and $15 million of General Obligation Taxable Bonds, Series 2019C (2044 maturity). The bonds will be issued by Regents of the University of Minnesota. Moody's maintains Aa1 ratings on $799 million of General Obligation Bonds and a P-1 short-term rating on the university's $400 million commercial paper program supported by its own liquidity. The outlook is stable.

RATINGS RATIONALE

University of Minnesota's (UM, Aa1 stable) excellent credit profile reflects strong student and research market positions and ample balance sheet reserves, all incorporated in the university's excellent strategic position. UM receives good support from the State of Minnesota (Aa1 stable), including payment of debt service on $242 million of Special Purpose Revenue Bonds (Aa2 stable). Offsetting challenges are relatively thin operating performance compared to peers and substantial capital plans.

As the state's flagship and Big 10 research university, the university shows an excellent strategic position, with strong student demand and over 61,000 FTEs for fall 2018 and nearly $800 million of research awards. For fiscal 2018 University of Minnesota reported unrestricted monthly liquidity of $1.6 billion or 174 days, comparable to 2017. Also stable was operations with a 7% operating cash flow margin in fiscal 2018 with the university expecting comparable performance in 2019. Fundraising remains a credit strength, with $239 million of three year average gift revenues reported for fiscal 2016-2018. Favorably, University of Minnesota and Fairview Health Services (A2 negative), the owner and operator of University of Minnesota Medical Center, entered into a new agreement with University of Minnesota Physicians that creates a Joint Clinical Enterprise and provides greater university funding from Fairview.

RATING OUTLOOK

The stable outlook reflects continued favorable student demand and sponsored research trends, growing tuition revenue, stable to improving operating cash flow and debt service coverage despite additional debt plans.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Substantial growth in balance sheet reserves
- Sustained, notable improvement in operating performance

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Sustained weakening of operations and cash flow generation
- Additional net new debt without improved operating performance

LEGAL SECURITY

All General Obligation bonds and commercial paper are unconditional, direct and general obligations of the university. There are no debt service reserve funds for the bonds.

USE OF PROCEEDS
Proceeds of the Series 2019A bonds will be used to finance capital projects, refund all of the outstanding Series H commercial paper notes and pay issuance costs. Proceeds of the Series 2019B bonds will be used to current refund the university's outstanding Series 2009D taxable general obligation bonds, advance refund and defease the outstanding Series 2010D taxable general obligation bonds and pay issuance costs. Proceeds of the Series 2019C bonds will be used to refund part of the outstanding Series I commercial paper notes, pay for various capital projects and pay issuance costs.

PROFILE

University of Minnesota, founded in 1851, has a national market position as the state's flagship and land grant university and member of the Big Ten Academic Alliance (Big 10). One of the nation's largest research universities, total revenues were over $3.5 billion with nearly $800 million of research awards for fiscal 2018. With campuses in the Twin Cities, Duluth, Morris, Crookston, and Rochester, the university reported enrollment of nearly 67,000 headcount students for fall 2018.

METHODOLOGY

The principal methodology used in these ratings was Higher Education published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology

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