New York, September 02, 2021 -- Moody's Investors Service has assigned an Aa1 rating to University of Minnesota's (MN) proposed approximately $34 million General Obligation Taxable Bonds, Series 2021C (Sustainability Bonds). The bonds were issued by Regents of the University of Minnesota. We have also affirmed the University's Aa1 issuer rating, the Aa1 ratings on General Obligation Bonds and a P-1 short-term rating on the university’s $400 million commercial paper program supported by its own liquidity. Total debt outstanding as of June 30, 2021, including special purpose bonds, was $1.4 billion. The outlook is stable.

RATINGS RATIONALE

The assignment and affirmation of University of Minnesota's Aa1 issuer and debt instrument ratings reflects its excellent brand and strategic positioning derived from its strong student and research market positions and ample financial resources. UM receives good support from the State of Minnesota (Aa1 positive), including payment of debt service on $230 million of Special Purpose Revenue Bonds (Aa2 positive) which adds to its favorable operating environment. The university benefits from strong wealth boosted by sound fundraising, and investment returns, with total cash and investments, including the University of Minnesota Foundation, estimated at around $7.4 billion in fiscal 2021 providing ample coverage of operations. Moderate leverage is enhanced by amortization that largely offsets planned borrowing for future capital expenditures. Offsetting challenges are relatively thin operating performance compared to peers, indirect exposure to patient care revenue and a competitive landscape which somewhat dampens enrollment prospects. The rating on the general obligation bonds is at the same level as the issuer rating since the bonds are an unconditional general obligation of the university.

The P-1 rating on the university's Commercial Paper program reflects the long term rating of the university, strong coverage by daily liquidity assets and solid treasury management including allowing no more than $175 million to mature in one week period.

RATING OUTLOOK

The stable outlook reflects Moody's expectations of continued favorable student demand, tuition revenue and sponsored research trends. The outlook also incorporates longer term stable to improving operating cash flow and debt service coverage. The outlook also reflects Moody's expectations that UM will continue to manage through challenging conditions related to the coronavirus, mitigating fiscal impacts through appropriate budgetary responses.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Substantial growth in financial resources
- Sustained, notable improvement in operating performance

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained weakening of operations and cash flow generation
- Additional substantial net new debt without improved operating performance
- Short-term rating could be downgraded if there was a reduction in available same day liquidity or weakening of debt and treasury management practices.

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. The university also has special purpose revenue bonds secured by a state appropriation pledge.
USE OF PROCEEDS

To finance a portion of a clinical research facility and pay the costs of issuance.

PROFILE

The 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 $3.7 billion with nearly $875 million of research awards for fiscal 2020. With campuses in the Twin Cities, Duluth, Morris, Crookston, and Rochester, the university reported enrollment of around 67,000 headcount students for fall 2020.

METHODOLOGY


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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