New York, October 09, 2020 -- Moody's Investors Service has assigned Aa1 ratings to University of Minnesota's (MN) proposed General Obligation Bonds, Series 2020A in the amount of $31.2 million and General Obligation Taxable Bonds, Series 2020B in the amount of $84.7 million for a total of around $115 million. The bonds will be issued by Regents of the University of Minnesota. We have also affirmed the Aa1 ratings on around $915 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

The assignment and affirmation of University of Minnesota's Aa1 rating reflects its excellent credit profile underpinned by its strong student and research market positions and ample financial resources, all incorporated in the university's excellent strategic position. Total cash and investments including holdings of the university foundation are estimated at $5.9 billion in fiscal 2020 with flexible reserves providing a strong buffer to operations and debt of 1.2x and 2.7x, respectively, in fiscal 2019. UM receives good support from the State of Minnesota (Aa1 stable), including state appropriations that provide 20% of revenue, capital grants, and payment of debt service on $242 million of UM's Special Purpose Revenue Bonds (Aa2 stable). The university also continues to benefit from strong fundraising with a $4 billion capital campaign that will be completed by 2021.

Offsetting challenges include relatively thin operating performance compared to peers with an operating cash flow margin of 8.1% in fiscal 2019 compared to the 11.8% median for Aa1-rated public universities. Margins will thin further in fiscal 2020 and 2021 reflecting the negative impact of the coronavirus on student charges. The university also has additional capital plans that rely partially upon borrowing. However, planned increases in debt is moderate and will be offset by University of Minnesota's scheduled debt amortization. As an academic medical center, the university also has exposure to the healthcare operations of its Physicians Group and Fairview Health Services (A3/negative), partially mitigated by a favorable funding agreement in place.

We regard the coronavirus outbreak as a social risk under our ESG framework given the substantial implications for public health and safety. In fiscal 2020, the university of Minnesota margins thinned due to refunds for housing and dining operations which resulted in a small reduction in revenues not fully offset by slower expense growth despite budget reductions. As a result, we estimate that operating margins were slightly negative and the operating cash flow margin was narrower, although still sound. For fall 2020, classes are being offered in a hybrid format with a lower density of housing. The revenue dampening effects of an estimated slight decline in enrollment of 2.4%, lower density in student residences and a reduction in athletic revenue including ticket sales will further strain operating performance in fiscal 2021. The university is implementing cost reductions to offset these revenue losses to achieve a balanced position. Its liquidity position has strengthened to confront these temporary fiscal challenges.

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 our expectations that UM will manage through challenging conditions related to the coronavirus and related economic recession, mitigating fiscal impacts through appropriate budgetary responses. Over the next several years' we expect 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.

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 operating performance and cash flow generation
- Additional net new debt without improved operating performance
- For the P-1 rating, downward pressure would be caused by a significant decline in the self-liquidity

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 will be used to retire $53 million in commercial paper, capital expenditures, and to pay the cost of issuance.

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 $3.6 billion with nearly $863 million of research awards for fiscal 2019. With campuses in the Twin Cities, Duluth, Morris, Crookston, and Rochester the university reported enrollment of around 67,000 headcount students for fall 2019.

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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