

CREDIT OPINION

10 March 2020

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University of Oregon, OR

Credit update following outlook revision to negative

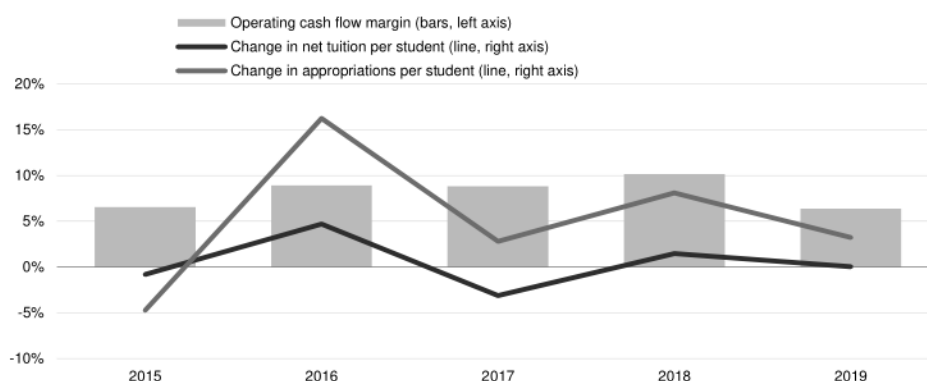
Summary

The University of Oregon's (UO, Aa2 negative) maintains excellent strategic positioning that incorporates its role as the State of Oregon's flagship university, a nationally recognized brand and member of the PAC-12 athletic conference. UO's scale is sizeable, with \$911 million of operating revenue in fiscal 2019. Total wealth is strong, with \$1.7 billion in total cash and investments supported by solid donor support. However, the university is facing fiscal challenges driven by the combination of increasing debt and thinning operating performance weakening debt affordability. Growth in student charges, UO's largest revenue source, was outpaced by expense increases largely for salaries and pension contributions in the fiscal 2015-19 period. Recent international student enrollment declines are contributing to difficulty growing net tuition revenue. Liquidity at 114 monthly days cash on hand is modest given weakened operations. Additional constraints include low operating support from the State of Oregon relative to peers, high financial leverage and a large unfunded pension liability. Weak operating cash flow margins are likely to persist through at least 2021 while the university addresses fiscal challenges with realigned enrollment recruiting, tuition restructuring and expense efficiencies.

On March 6, 2020, Moody's revised the University of Oregon's outlook to negative from stable.

Exhibit 1

Low growth in net tuition per student and appropriations per student drive weak operating performance



Source: Moody's Investors Service

Credit strengths

- » Sizable wealth with total cash and investments of nearly \$1.7 billion and good 1.2x cushion of spendable cash and investments to expenses
- » National brand recognition broadens geographic draw and higher non-resident tuition
- » Strong donor support and momentum toward \$3 billion campaign and recent large gifts adding to research initiatives
- » Capital investments of nearly \$600 million over the fiscal 2015-19 period to enhance student experience

Credit challenges

- » High leverage relative to operations, with debt to operating revenue of 1.0x and debt to cash flow of 15.8x
- » Thinning operating performance because of low revenue growth, with rising expenses driven by a growing pension liability and increased faculty hiring
- » Low operating support from the state compared to peers

Rating outlook

The negative outlook reflects the potential for credit deterioration if the university is not able to strengthen operating performance, particularly as it may take on additional debt within the next several years.

Factors that could lead to an upgrade

Material growth in cash and investments relative to debt and operations combined with strengthened student demand and scale. The outlook could be stabilized if the university's measures to improve operating performance gain traction.

Factors that could lead to a downgrade

Inability to strengthen operating cash flow and generate stronger pro forma debt service coverage.

Key indicators

Exhibit 2

University of Oregon, OR

	2015	2016	2017	2018	2019	Pro Forma 2019	Median: Aa Rated Public Universities
Total Fall FTE Enrollment	22,598	22,630	22,208	22,020	22,035	22,035	29,353
Operating Revenue (\$000)	804,190	836,571	858,852	886,737	911,072	911,072	1,186,906
Annual Change in Operating Revenue (%)	-0.4	4.0	2.7	3.2	2.7	2.7	3.2
Total Cash & Investments (\$000)	1,239,697	1,237,853	1,394,476	1,572,454	1,675,427	1,675,427	1,363,489
Total Debt (\$000)	686,426	800,447	781,689	817,614	793,080	913,080	643,972
Spendable Cash & Investments to Total Debt (x)	1.2	1.0	1.2	1.3	1.4	1.2	1.4
Spendable Cash & Investments to Operating Expenses (x)	1.0	0.9	1.0	1.1	1.2	1.2	0.7
Monthly Days Cash on Hand (x)	115	107	116	119	114	114	169
Operating Cash Flow Margin (%)	6.5	8.9	8.8	10.2	6.4	6.4	11.2
Total Debt to Cash Flow (x)	13.0	10.7	10.3	9.1	13.7	15.8	4.7
Annual Debt Service Coverage (x)	1.0	1.2	2.7	1.7	1.1	1.1	2.9

Pro Forma 2019 data reflects leverage impact upon issuance of \$120 million in fiscal 2020.

Source: Moody's Investors Service

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Profile

University of Oregon is the state's flagship university with its primary campus in Eugene, and program offerings in [Portland](#), the Oregon Institute of Marine Biology in Charleston, and at the Pine Mountain Observatory outside of [Bend](#). In fiscal 2019, the UO recorded \$911 million in operating revenue and in fall 2019, enrolled 22,035 full-time equivalent (FTE) students.

Detailed credit considerations

Market profile: national brand broadens geographic draw; donor support aids research growth

The University of Oregon's national brand recognition and investment in academic and capital will continue to draw steady student demand. Enrollment remains relatively stable at over 22,000 FTE students. First time freshman matriculants increased over the last two years despite losses in international students, reflecting UO's realigned recruitment strategies. More than half of freshman are drawn from outside of Oregon. Undergraduate students comprise 81% of enrollment, much more than most public flagship universities because of a lack of medical and engineering schools. Improvement in graduation rates is credit positive, and also supports enrollment stability.

Intensive investments in academic programming, including development of the Knight Campus for Accelerating Scientific Impact will help the university grow research. Research expenses remain modest relative to peers, at \$81 million or 9% of operating expenses in fiscal 2019, but will grow at a faster pace as the university invests in additional faculty and programming. The first building on the Knight Campus will open in summer 2020. UO is currently planning around a nearly 15% increase in sponsored research and coordination of graduate programs with other Oregon public universities, among other research initiatives, at the new campus.

Operating performance: lagging net tuition revenue and rising expenses

Weak operations will persist through at least fiscal 2021. UO's fiscal 2019 operating cash flow margin of 6.4% and roughly 1.1x debt service coverage are low compared to peers. This thinner performance is driven both by net tuition revenue constraints and limited increases in state operating support, along with investment in faculty and rising pension expense. Beyond 2021, the university's plan for tuition restructuring and budget reductions provides prospects for improvement in operating cash flow. This will be critical to the university's debt affordability as it contemplates additional borrowing in the next several years.

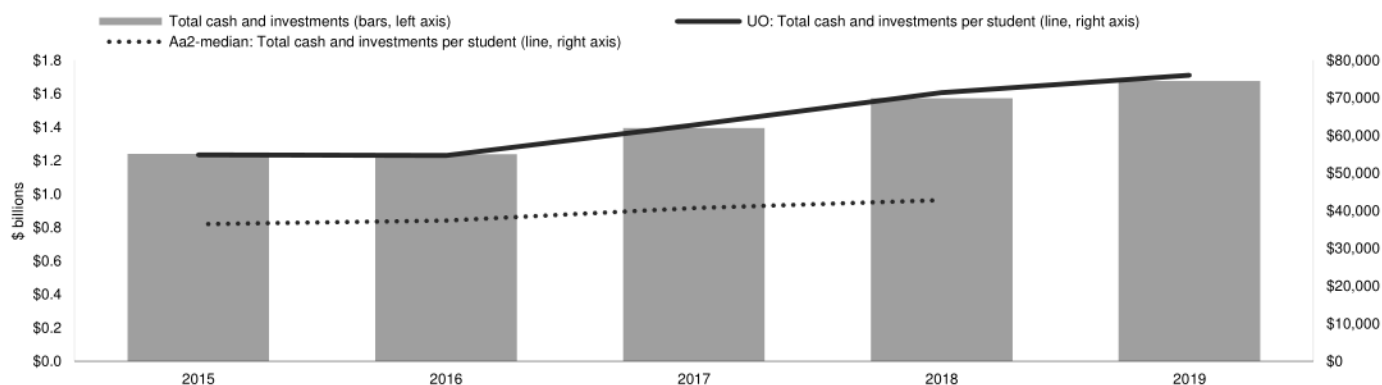
A higher net tuition per student at \$17,449 for fiscal 2019 compared to the Aa2-median of \$10,559 reflects the university's historically high reliance on non-resident higher-paying students. Heightened needs for student financial aid, along with a meaningful reduction in higher paying international students limited UO's net tuition revenue growth to just 3% in the fiscal 2015-19 period, further pressured by the university's high 65% reliance on student charges.

Wealth and liquidity: solid fundraising underpins sizable wealth; modest liquidity

UO's growing total cash and investments of almost \$1.7 billion in fiscal 2019 and solid fundraising are a partial offset to weaker operations. Spendable cash and investments of \$1.1 billion covered operating expenses by a solid 1.2x, above the Aa2-median of 0.7x. Strong fundraising momentum is likely to continue, with \$2.3 billion raised toward the increased \$3.0 billion campaign.

Exhibit 3

Fundraising momentum drives strong cash and investments



Source: Moody's Investors Service

Liquidity

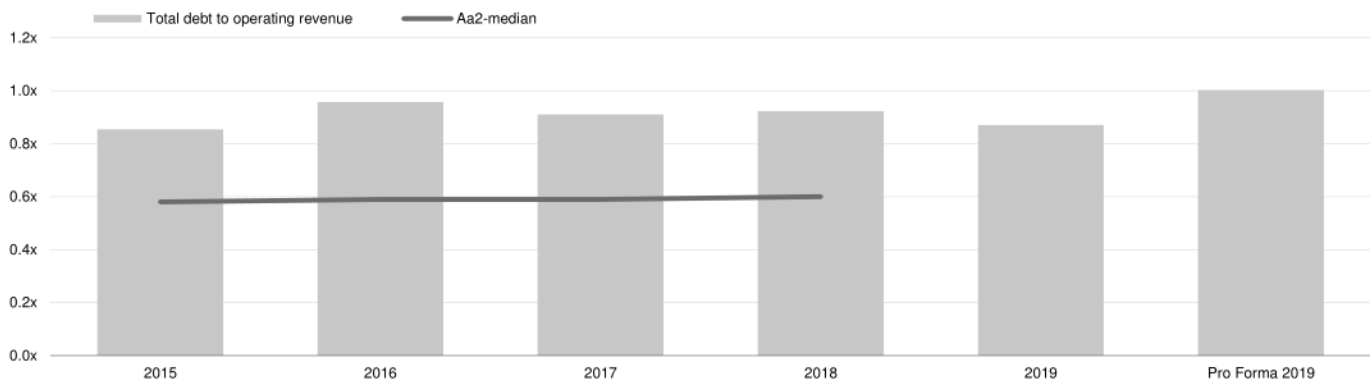
UO's liquidity at \$276 million in fiscal 2019, or 114 monthly days cash on hand, is modest relative to rated peers, particularly given current weakened operations. The Aa2-median is 159 monthly days.

Leverage: high and growing debt as university continues to invest in capital

UO's leverage will remain elevated because of ongoing capital needs, though most projects are expected to be self-supporting auxiliary facilities. The university has invested heavily in campus facilities over the fiscal 2015-19, with a capital spending rate averaging 1.9x for the period, with \$600 million funded through a combination of debt, gifts and cash flow. Debt as of fiscal end 2019 totaled \$793 million.

Exhibit 4

High and rising leverage relative to peers



Source: Moody's Investors Service

The university is planning to issue \$120 million of bonds in fiscal 2020, primarily funding Phase 1 of its planned Housing Transformation Project. Pro forma debt with the planned Series 2020A and 2020B bonds will be \$913 million. Total debt includes \$52 million of foundation debt. Spendable cash and investments to pro forma debt of 1.2x and pro forma debt to cash flow of 15.8x are weaker than the Aa2-medians of 1.3x and 4.7x, respectively.

Future debt is planned around completion of the housing project, with additional student housing and area realignment through fiscal 2024. UO anticipates issuing approximately \$100 million in fiscal 2022.

Debt structure

UO's debt is all fixed rate providing predictable budgeting, but is a relatively complex mix of amortizing and long term bullet maturities. Though the General Revenue bonds (pro forma total \$290 million) have long term maturities in fiscal years 2045-50 (including the planned Series 2020A&B bonds), UO's strong treasury and oversight will capably manage the bonds over the long term horizon. Remaining debt is largely amortizing, with the largest a note payable with the State of Oregon (\$465 million) that matures in fiscal 2044).

Legal security

The General Revenue Bonds are secured by a broad pledge of all legally available general revenue of the university, including all tuition, fees, charges, rents, revenue, receipts and other income (including interest and dividends) of the university if and to the extent such funds are not restricted in their use by law, regulation or contract. Excluded from the pledge are state appropriations, legally restricted grants or gifts and required debt service payments for other university obligations as they are due. Unrestricted fund balances, to the extent that they were accumulated from tuition, fees, charges, rents, revenue, interest, dividends, receipts and other income received as general revenue, also would be available to pay obligations secured by general revenue. General revenue totaled \$645 million in fiscal 2019, which comprised 71% of the UO's \$911 million in Moody's adjusted operating revenue. Pro forma debt service inclusive of all debt is estimated at \$59 million for fiscal 2020.

Debt-related derivatives

None.

Pensions and OPEB

UO's pension obligations are elevated relative to rated peers. Periodic increases in contribution requirements by the state to address the growing liability contributes to weaker university operating performance. Most university employees participate in one of two state-run programs: Public Employees' Retirement System's (PERS), a multi-employer defined-benefit program which the state controls, or the defined contribution Optional Retirement Plan (ORP). The Moody's three-year adjusted net pension liability (ANPL) was a high \$1.1 billion for fiscal years 2017-2019. Combined with outstanding debt and the planned fiscal 2020 issuance, this represents a high 2.2x debt to operating revenue relative to the Aa2-median of 1.5x.

The university participates in three OPEB defined benefit plans, all established by Oregon statutes. UO's share of the combined net OPEB liability was reported at \$15.3 million for fiscal 2019.

ESG considerations**Environmental**

Environmental considerations regarding climate factors at OU's main campus in Eugene are low risk, with the exception of some risk of extreme rainfall.

Social

UO's primary social considerations reflect the national competitive environment for students, a focus on providing pathways for first generation students from Oregon and building out scientific research opportunities for faculty, students and partners. As the state's flagship higher education institution and with a broad national reputation, UO is favorably positioned to build a pipeline of student graduates to add to workforce development.

Governance

A strong senior leadership team and effective governance structure support the University of Oregon's excellent strategic positioning. Careful budget oversight ensures long-term financial stability despite ongoing student market and expense challenges. The president is in his fifth year, with his contract extending through September 2023. The presidential initiatives drive the strategic vision for the UO, focused on academic excellence, improved student access and success and enhanced student experience.

The university is in its sixth year of autonomous governance by a 15-member board of trustees. The term for at-large trustee positions is four years, and the term for the faculty, student and nonfaculty staff trustees is two years. Trustees may serve up to two full consecutive terms.

Rating methodology and scorecard factors

The [Higher Education Methodology](#) includes a scorecard that summarizes the factors that are generally most important to higher education credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating. We assess strategic positioning on a qualitative basis, as described in the methodology.

For the University of Oregon, the difference between the scorecard-indicated outcome and the assigned rating incorporates by forward-looking expectations of stabilized enrollment and improving operating performance, as discussed in this Credit Opinion.

Exhibit 5

University of Oregon, OR

Scorecard Factors and Sub-factors	Value	Score
Factor 1: Market Profile (30%)		
Scope of Operations (Operating Revenue) (\$000)	911,072	Aa2
Reputation and Pricing Power (Annual Change in Operating Revenue) (%)	2.7	Baa2
Strategic Positioning	Aa	Aa
Factor 2: Operating Performance (25%)		
Operating Results (Operating Cash Flow Margin) (%)	6.4	A2
Revenue Diversity (Maximum Single Contribution) (%)	65.2	A3
Factor 3: Wealth & Liquidity (25%)		
Total Wealth (Total Cash & Investments) (\$000)	1,675,427	Aa1
Operating Reserve (Spendable Cash & Investments to Operating Expenses) (x)	1.2	Aaa
Liquidity (Monthly Days Cash on Hand)	114	A1
Factor 4: Leverage (20%)		
Financial Leverage (Spendable Cash & Investments to Total Debt) (x)	1.2	Aa2
Debt Affordability (Total Debt to Cash Flow) (x)	15.8	A3
Scorecard-Indicated Outcome		A1
Assigned Rating		Aa2

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

For non-US issuers, nominal figures are in US dollars consistent with the Higher Education Methodology.

Leverage measures reflect new money debt issuance of \$120 million in fiscal 2020.

Source: Moody's Investors Service

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