Rating Action: Board of Trustees of the Univ. of Alabama

Moody's assigns Aa2 rating to University of Alabama's $272 million Series 2012-A and Series 2012-B General Revenue Bonds; outlook is stable

University will have $795 million of rated debt including current issuance

New York, September 07, 2012 --

Moody's Rating

Issue: General Revenue Bonds, Series 2012-A (Tax-Exempt, Non-AMT); Rating: Aa2; Sale Amount: $250,660,000; Expected Sale Date: 09-25-2012; Rating Description: Revenue: Public University Broad Pledge

Issue: General Revenue Bonds, Series 2012-B (Taxable); Rating: Aa2; Sale Amount: $21,315,000; Expected Sale Date: 09-25-2012; Rating Description: Revenue: Public University Broad Pledge

Opinion

Moody's Investors Service has assigned a Aa2 rating to The University of Alabama's $272 million of Series 2012-A and Series 2012-B General Revenue Bonds. The rating outlook for the university is stable. We have affirmed the existing Aa2 ratings on the university's prior General Revenue bonds.

SUMMARY RATING RATIONALE

The Aa2 rating reflects The University of Alabama's strong student market position and ability to attract non-resident students. The rating also reflects the university's strong operating cash flow, philanthropic support and healthy flexible reserves. Credit challenges include elevated operating leverage, limited revenue diversity following declines in state support and limited track record in sponsored research activity.

STRENGTHS

*Markedly growing enrollment with notable pricing power. With 29,625 full-time equivalent students in fall 2011 (up 24% from 2007), the university's market strength has translated into large increases in net tuition revenue, which more than
doubled between fiscal year (FY) 2012 (preliminary, unaudited) and 2007 to $340 million, aided by non-residents students who pay 2.5 times the resident tuition rate and made up 51% of the fall 2011 incoming class.

*Uncommonly strong cash flow generation from operations. The operating cash flow margin of 18.6% in FY 2011 (as calculated by Moody's) provided debt service coverage of 3.2 times.

*Solid financial resource cushion with expendable financial resources of $758 million at the end of FY 2011. Expendable financial resources cushion pro forma debt 0.83 times and operations by 1.02 times. Monthly liquidity at September 30, 2011 of $535 million translates to 280 days cash on hand.

*Good fundraising strength with average gifts per student of $2,929 in fiscal years 2009 through 2011.

CHALLENGES

*Expected enrollment growth and enhanced standards for upgraded student facilities will continue to drive borrowing with pro forma debt expected at 1.1 times FY 2011 revenues. The university has received limited state capital support and has pro forma debt per student of $30,711, well above our median for Aa2-rated public colleges and universities of $15,977.

*Volatile state funding environment with FY 2012 appropriations at just 73% of FY 2008 funding, although a new state of Alabama funding reserve mechanism should reduce volatility in the future.

*Plans to increase sponsored research activity at the university, which lags that of peers, is likely to face stiff competition. Research expenditures of $47.9 million in FY 2011 remain fairly limited for a flagship university.

Outlook

The stable outlook is based on continued strengthening of the student market position and sound university operating performance as well as resource growth keeping pace or outpacing increases in debt.

WHAT COULD MAKE THE RATING GO UP

Material growth in financial resource base outpacing additional debt; further improvements in scope of research activities and student market position.

WHAT COULD MAKE THE RATING GO DOWN

Marked decline in operating cash flow; significant reductions in financial resources including flexible reserves; inability to increase net tuition revenue.

METHODOLOGY

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.
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