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University Of Alabama Board Of Trustees
University Of Alabama; Public Coll/Univ - Unlimited Student Fees

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University Of Alabama Board Of Trustees
University Of Alabama; Public Coll/Univ - Unlimited Student Fees

Credit Profile

US$250.66 mil gen rev bnds (University of Alabama) ser 2012A due 07/01/2042
Long Term Rating: AA-/Stable
New

US$21.315 mil gen rev bnds (University of Alabama) ser 2012B due 07/01/2020
Long Term Rating: AA-/Stable
New

University of Alabama Brd of Trustees, Alabama
University of Alabama, Alabama

University of Alabama Brd of Trustees (Univ of Alabama) (Tuscaloosa) Student Fees ser 2004A, 1997
Unenhanced Rating: AA-(SPUR)/Stable
Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to the University of Alabama Board of Trustees' approximately $250.7 million series 2012A general revenue bonds and approximately $21.3 million series 2012B (taxable) general revenue bonds, issued on behalf of the University of Alabama (UA). In addition, Standard & Poor's affirmed its 'AA-' long-term and underlying rating (SPUR) on the university's existing debt. The outlook on all ratings is stable.

The rating reflects the solid enrollment and demand trends and historically positive operations on a full accrual basis despite the reductions in state appropriations. Though there are additional capital plans and the university's total debt has more than doubled since fiscal 2004 (from $320 million to the current $821 million), it has maintained adequate financial resources and we expect them to continue to do so. At this time, we believe the additional debt plans are consistent with the rating. We believe the experienced management team, using conservative budgeting, good fiscal management, and detailed planning for the university's future is a credit positive.

More specifically, the 'AA-' ratings are supported by our assessment of the university's:

- Strong demand characteristics, with increasing headcount enrollment and first-year applications, and good student retention and student quality;
- History of healthy financial operations on a full-accrual basis, bolstered by investment earnings;
- Operating support from Alabama (AA/ Stable) as well as a fairly diverse revenue stream; and
- Adequate financial resource levels, with fiscal 2011 adjusted unrestricted net assets equal to 59.6% of operations and 54.8% of pro forma debt, along with a proven record of successful fund raising.

Offsetting the preceding credit strengths is our view of:

- Additional capital needs coupled with a moderately high pro forma maximum annual debt service (MADS) of 7.8%
of 2011 adjusted operating expenses;
• Low endowment for the rating category, much of which is restricted; and
• Recent declines in state funding and a constrained appropriation environment although, in our view, the university is managing effectively through them.

The series 2012A bond proceeds will be used to refund approximately $137 million of outstanding bonds and provides about $132 million of new money for various projects including a new residence hall, various renovations and additions, additional parking debt and other deferred maintenance needs. The series 2012B (taxable) is all new money and will be used mostly for fraternity/sorority housing renovations and other new construction including a new dining facility. The bonds are secured by a broad mix of pledged revenues that include general fees, athletic revenues, dormitory revenues, parking, and related revenues. Specifically excluded from the pledge are state appropriations. Pledged revenues at fiscal year end Sept. 30, 2011, were $612.3 million.

These series 2012 A and B bonds are on parity with the university’s $676 million in outstanding debt. Additionally, there is another $49.7 million in mostly interfund borrowing. Total pro forma debt is approximately $821 million. We understand that the university intends to issue about $135 million in fiscal 2014 and an additional $166 million in fiscal 2017 as it continues with its capital plan.

The University of Alabama Tuscaloosa is the flagship and original autonomous campus and, along with Birmingham and Huntsville, is governed by the 17-member University of Alabama Board of Trustees. Each campus is operated as a division of the board and has a separate president. Debt is issued and secured separately on a campus level. Established in 1831, the University of Alabama, which is located on a well-maintained campus in Tuscaloosa, is the state’s oldest institution of higher education. UA’s 12 schools and colleges combined offer more than 200 undergraduate and graduate programs. There is also an array of interdisciplinary research and service organizations that operate within the various divisions.

**Outlook**

The stable outlook reflects our expectation that during the next two years, student demand will continue to be strong and the university will manage its operations during a period of declining state operating appropriations, as evidenced by balanced financial operations on a full-accrual basis.

Consideration of a positive rating action outside the outlook period would require significant improvement of financial resource levels, particularly with the additional debt plans, solid operating surpluses on a full-accrual basis, continued solid demand metrics.

In our view, it is highly unlikely that during the next two years, financial operations will weaken on a full-accrual basis or financial resources will deteriorate relative to the rating category significantly enough to warrant any negative rating action.
Enterprise Profile

Demand
Total headcount enrollment for fall 2011 was 31,747 (29,625 FTE), continuing a trend of solid annual increases and an overall 33% increase from the 23,878 headcount in fall 2006. Growth has been mainly at the undergraduate level, which comprises about 83% of the student body. In fall 2011, only 49% of students were Alabama residents; this number has decreased during the past few years as more out-of-state students have chosen to attend the university. University management expects continued growth during the next few years, primarily from out-of-state students -- principally from Texas and the Southeast. Management reports that it expects fall 2012 headcount to be approximately 33,000.

We view UA’s student demand to be very strong, particularly for a public university. The number of first-year applications has almost doubled since fall 2006 and increased 10% from the previous year to a record high of 22,136 for fall 2011. UA’s selectivity also improved to 43.5% for fall 2010 from 70% in fall 2006. We consider this selectivity rate very good for a public university. We also consider the matriculation rate, which has averaged more than 50% since fall 2006, solid; for fall 2011, it improved markedly to 59.4%. For fall 2012, management reports that it expects its largest first-year class with more than 6,400 students expects to matriculate compared with 5,728 for fall 2011; 54% of those students are from out of state. In our opinion, the university has maintained very good student quality, with an ACT score of 25.6 for fall 2011. The retention rate from first year to sophomore year averaged 85% for the past five years, which consider strong.

UA’s tuition remains competitive with that of universities in its region, providing it with some flexibility, in our view, to raise tuition without adversely affecting enrollment. As such, on a percentage basis, the university increased in-state tuition by 12.9% in fall 2010, 8.9% for fall 2011, and 7% for fall 2012. Per management, the increases in tuition were used to partially offset reductions in state appropriations during this time. For the 2011-2012 academic year, mandatory tuition and fees are $8,600 for a resident student and $21,900 for an out-of-state student. The university maintains tuition within its peers in the Southern University Group -- these are flagship state universities, such as Georgia Tech, the University of Georgia, Auburn University, and the University of Tennessee to name a few. In terms of cross-applications, which in our view provide a better measure of competition, UA’s main competitors, per management, are Auburn University, Vanderbilt University, the University of Texas and the University of North Carolina-Chapel Hill. Given the low per full-time equivalent (FTE) basis of state appropriations for the rating category, (5,400 compared with the public university median of $8,586) we view their pricing flexibility as a credit positive.

Management
There have been some recent management changes at both the system level and at UA. Dr. Robert Witt, previously the president at UA, became chancellor in 2012. Dr. Guy Bailey will be the new president at UA (former President at Texas Tech) and is scheduled to begin his term fall 2012. Key UA administration members, including the current interim president and other members of the finance team, have a long history with the university. We view this stability as a credit positive as the university enters into the presidential transition. We view UA as having strong institutional policies in place, including financial policies related to debt and investments. Historically, the university has managed
effectively through state appropriation cuts, and has been able to fund some strategic projects from internal funds.

UA is nearing the end of its 2004-2014 strategic plan and has accomplished many of its goals, including increasing the size and quality of the student body as well as enhancing the campus facilities. Management reports that more than $1 billion has been invested in the physical campus, which we believe has helped to attract and maintain students.

Government-related entity
In accordance with our criteria for government-related entities (GREs), we based our view of a “moderate” likelihood of extraordinary government support on our assessment of the university’s “limited” link with the state government, given the state’s history of regular, ongoing operating support and elected governing board. Our view also reflects the university’s “important” role in the state’s economy, compared with that of other state GREs, given its position as a flagship institution of higher education and provider of economic development programs. Pursuant to the GRE criteria, a moderate likelihood of extraordinary support from Alabama does not result in an upgrade of UA’s standalone credit profile of “aa-“.

Financial Profile

Operations
UA’s finances are characterized by consistent operating surpluses on a full-accrual basis and good revenue diversity. Because the university holds its endowment at the university level instead of a separate foundation, the long term investment gains and losses tend to obscure operating performance. Therefore, we exclude long-term investment gains and losses in the operating results. The audit reports net income of $155.4 million before capital for the fiscal year ended Sept. 30, 2010. After our adjustments, we estimate operating results for the university were closer to $70 million (adjusted for investment gains and losses), compared with $71 million in fiscal 2011 (adjusted for investment gains and losses). Results on a cash basis have historically been positive, in our view, before depreciation expenses of $48 million. Management reports that the fiscal 2012 budget is balanced, and it expects results to be similar to 2011. The university has, in our opinion, good revenue diversity with net tuition and auxiliaries accounting for 52.5% of 2011 revenues, followed by state appropriations at 19.5% and grants and contracts at 10.3%.

State appropriations
After reductions from 2009-2011, state appropriations have started to slightly increase, although they are equivalent to 2006 levels. Fiscal 2010 and 2011 state appropriations were about $138 million each year – a decline from the $156 million in 2009. This does not include $14 million in stimulus funding in both 2010 and 2011, which management reports was used for state scholarships. Management reports that they managed through state appropriation reductions in the past by managing revenue and expenditure allocations to meet operating needs and through increases in tuition and enrollment. For fiscal 2012, state appropriations increased to $146 million and management indicates they do not expect a proration for the remainder of the fiscal year. For fiscal 2013, the state appropriation actually increased, but because a portion is going into the state’s reserves for the rainy day fund (which was depleted in 2009) the appropriation is $141 million.
Financial resources and investments
In our opinion, financial resources for the university are adequate for the rating category. Adjusted unrestricted net assets as of Sept. 30, 2011, were $450.7 million (including all of the related foundations unrestricted net assets), and equaled 59.6% of operating expenses and 54.8% of pro forma debt. Cash and investments were stronger at 172.6% of 2011 expenses and 158.9% of pro forma debt.

The market value of the university's endowment at fiscal year-end 2011 was $616.9 million; down from the fiscal 2010 market value of $631.9 million. As of June 30, 2012, estimated market value was $648.6 million. This includes the endowment's investment in the real estate (Bryce Hospital purchase) to be used eventually for university construction. Although a majority of the endowment is restricted, we believe it provides some strength to the university as it produces spendable endowment income. For fiscal 2011, the endowment distribution was $25.9 million. The university's endowment is pooled with the University of Alabama Birmingham and Huntsville and other related component units. Asset allocation includes 43% in international and domestic equities, 14% in fixed income, 13% in hedge funds, 8% in private equity, 6% cash, and 16% in real assets.

The university completed a $500 million capital campaign on June 30, 2009, and raised approximately $612 million. Historically, fund raising at UA has been successful. Although it is not in a formal capital campaign, the university has raised about $75 million annually since fiscal 2008 and is expected to exceed $75 million in fiscal 2012. A very good 35% of alumni give to the annual fund.

Debt
Post-issuance, debt will be about $821 million. Pro forma debt is above the median of the 'AA' category and on a per FTE basis is high at $29,169 compared with the public university median of $16,103. However, about 60% of pro forma debt is self-supporting (primarily housing and auxiliaries) which we believe partially mitigates the high debt level. In our opinion, the pro forma MADS burden of $58.7 million is moderately high, at 7.8% of 2011 adjusted operating expenses. All of the university's debt is fixed rate and the debt service is level. We understand that the university intends to issue about $135 million in fiscal 2014 and an additional $166 million in fiscal 2017. Most of the potential debt is related to the recently purchased Bryce Hospital land (adjacent to campus) which will be used to renovate classroom space and additional housing needs.

The university offers other post-retirement employee health care benefits (OPEB), although management reports that the vast majority of retirees are enrolled through the State of Alabama Public Education Employees Health Insurance Plan. The net OPEB liability for UA is, in our opinion, small relative to other liabilities for fiscal 2011.

Related Criteria And Research
- USF Criteria: Non-Traditional Not-For-Profits, June 14, 2007
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of August 20, 2012)
University of Alabama Brd of Trustees, Alabama
University of Alabama, Alabama
University of Alabama Brd of Trustees (University of Alabama) taxable recovery zone economic dev bnds

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Many issues are enhanced by bond insurance.
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