



Wednesday, August 8, 2001

Moody's press release: OU bond rating

Moody's Investors Service has assigned an A2 underlying rating with a stable outlook to Oakland University's \$48 million General Revenue Bonds, Series 2001, issued through the Board of Trustees of Oakland University. Payment on the bonds is secured by a pledge of general revenues of the University, which include tuition, fees and other legally available funds, but exclude state appropriations. The Series 2001 bonds are expected to be insured by a municipal bond insurer with a financial strength rating of Aaa by Moody's. Subject to Moody's review of the insurance policy and other relevant documentation, the bonds are expected to carry the insurer's financial strength rating of Aaa. The tender features of the Series 2001 bonds are supported by a standby bond purchase agreement, which is under review and will be assigned a short-term rating by Moody's. Nonetheless, we will maintain our underlying rating on the University's stand-alone credit quality. The A2 underlying rating and outlook are based on the University's:

- Favorable enrollment growth and strong programmatic responsiveness to strong regional economy;
- Consistently positive, albeit modest, annual operating performance and capital funding, driven by healthy state funding levels; and
- Satisfactory levels of financial reserves relative to debt and operations, with moderate future debt plans and burgeoning fundraising success.

STRONG ENROLLMENT GROWTH AND FAVORABLE NET TUITION IN A VIBRANT REGIONAL ECONOMY

Moody's expects that Oakland University's growing prominence in one of Michigan's most affluent counties should enable enrollment to continue growing steadily and correspondingly bolster financial reserves. About 70% of the University's over 15,000 headcount students come from affluent Oakland County (debt rated Aaa by Moody's) or neighboring Macomb County (debt rated Aa1 by Moody's). Oakland University's comprehensive undergraduate programs include the liberal arts, featuring a prominent theater arts program, health sciences and nursing, teacher education, business, and engineering and computer science. Oakland offers only selected master's and doctoral degree programs in areas responsive to the demands of the regional economy such as physical therapy and systems engineering, providing an effective distinction from competing public universities in Michigan and strong ties to business partners in the area.

Enrollment of about 10,500 full-time equivalent students has grown by 17% over the past four years, and the University anticipates that it will add an additional 5,000 full time and part time students by 2020. Modest but steady increases in projected area high school graduates, along with a healthy level of appropriations from the State of Michigan (Aaa general obligation bond rating), are expected to adequately support planned growth over the next few years.

The University is only moderately selective, accepting approximately 80% of freshman applicants, but it is accepting a declining percentage of transfer applicants, from 86% in 1996 to only 64% in 2000. Student quality measures are increasing and solid yield rates of over 45% on accepted freshmen and nearly 80% on transfer students indicate a certain amount of self-selection by applicants to Michigan public universities.

OPERATIONS SHOULD CONTINUE TO PROVIDE ADEQUATE FUNDING OF CAPITAL OUTLAYS AND DEBT SERVICE

Moody's expects the University to continue to generate positive operating margins given expectations of growing enrollment and a consistent state funding environment. The University's margin has ranged from 4.3% to 5.4% over the past three years, providing adequate coverage of debt service from net available revenues. The University has a favorable net tuition per student of \$4,720, and Moody's believes that the relative affluence of Oakland's students provides flexibility to increase tuition charges. Student derived revenues currently make up a comparatively high 49% of revenues, and will likely increase in the future as Oakland expands auxiliary activities and overall enrollment. State operating appropriations fund another 36% of operations and have increased at a healthy rate for the past few years, although the current fiscal environment portends a smaller increase for 2002. Gifts have grown from 5.1 to 7.4% of revenues since 1996, and the University attracts over \$3 million per year in unrestricted operating support.

Supported in part by state capital appropriations, the University has funded substantial capital improvements over the past several years. Such improvements added significantly to the University's classroom buildings and student residential, activity and parking space. The current offering will finance various improvements to the campus, including new student apartments, the

University's share of a state-funded Health and Human Services academic building, and an expansion of the student center.

FINANCIAL RESERVES PROVIDE SATISFACTORY CUSHION, GIVEN STRONG STATE FUNDING; MODERATE FUTURE BORROWING LIKELY TO BE ACCOMPANIED BY RESOURCE GROWTH

Moody's believes the University's balance sheet cushion will continue to provide a relatively modest level of bondholder security, underscoring the importance of favorable state funding. Unrestricted operating resources of nearly \$40 million cushion unrestricted operating costs by 0.30 times and aggregate debt by 0.36 times. Expendable resources could fund just over five months of operations and provide a cushion of 0.52 times pro forma debt. Total financial resources approach \$70 million, including about \$12 million held by the University's affiliated fundraising foundation.

Although we believe that the University will continue to face capital needs as it progresses with its strategic capital plan, we do not expect any borrowing for two to three years. The University is gearing up for a public capital campaign that will have a goal of approximately \$50 million. Three gifts over \$1 million since 1998, as well as annual unrestricted funds of \$3 million in 2000 indicate favorable prospects for success. Fundraising progress, along with favorable capital support from the state, indicates that resource growth is likely to provide Oakland University with added debt capacity to support moderate borrowing at the A2 level.

OUTLOOK

Moody's stable outlook for Oakland University's general revenue bonds anticipates steady enrollment increases, at least modestly positive operating surpluses, and solid debt service coverage. We also anticipate moderate additional borrowing to accommodate growing enrollment and match state funding of academic building improvements, but stable overall leverage due to resource growth.

KEY DATA AND RATIOS

(Fiscal 2000; enrollment as of Fall 2000)

Total Enrollment: 10,504 full-time equivalent students

Total Pro Forma Debt: \$107.5 million

Expendable Resources to Debt: 0.52 times

Expendable Resources to Operations: 0.43 times

Total Resources per Student: \$6,626

State Appropriations per Student: \$4,822

Peak Debt Service Coverage: 1.3 times

Operating Margin: 4.6%

SUMMARY

Moody's has assigned an A2 underlying rating with a stable outlook to OU.

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