MOODY'S INVESTORS SERVICE

CREDIT OPINION
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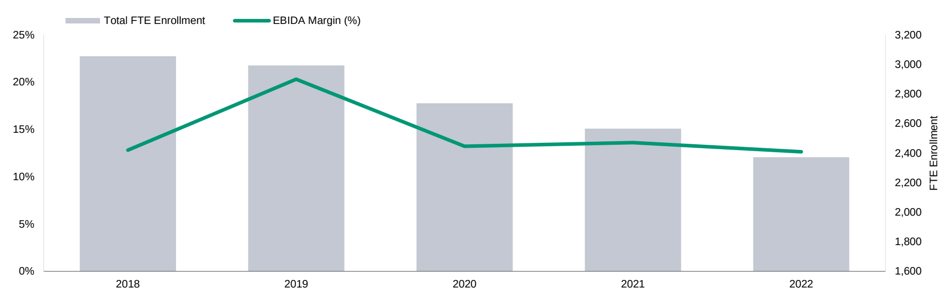
Hamline University, MN

Update to credit analysis

Summary

Hamline University's (Hamline, Baa3/stable) credit profile reflects the private university's modest scale and wealth levels as well as its established brand in the Twin Cities region. Prudent expense management, combined with good overall expense flexibility, has aided Hamline in combatting budgetary pressures because of enrollment losses, with the university experiencing a 22% decline in full-time equivalent enrollment since fall 2018. Sound budgeting, including the benefit of pandemic relief aid in recent years, has aided Hamline's ability to grow total cash and investments, which have grown 25% since fiscal 2018. Management continues taking action to sustain fiscal stability via cost containment initiatives and restructuring of some academic programs. The university's leverage profile is manageable as debt is amortizing, wealth levels are rising, and debt service coverage has been sound. Offsetting challenges include continued enrollment pressures due to a highly competitive regional market, with student charges comprising around 75% of total operating revenue in a typical year.

Exhibit 1
Operating performance remains relatively stable despite steady decline in enrollment



Source: Moody's Investors Service

Credit strengths

» Good growth in total cash investments, up 25% since fiscal 2018

» Solid fiscal oversight to manage expenses through enrollment headwinds and grow financial resources

» Low leverage and strong debt affordability, with total cash and investments covering total adjusted debt by 2.8x

» Established market position as a small private university in the Twin Cities region

Credit challenges

» Declining enrollment in both undergraduate and graduate student markets, pressuring tuition revenue which comprises over 70% of total operating revenue in fiscal 2022

» Relatively small $78 million operating base with revenue growth constraints

» Thinner liquidity translating into 171 monthly days cash on hand, weaker than the Baa-rated peer median of 335 days

Rating outlook

The stable outlook reflects expectations of no further material decline in enrollment leading to pressured net tuition revenues and thinner debt service coverage, as well as no weakening of liquidity.

Factors that could lead to an upgrade

» Strengthened student demand, reflected by sustained growth in enrollment and net tuition revenue

» Substantial growth of cash and investments, including unrestricted liquidity, to help mitigate ongoing revenue stagnation

Factors that could lead to a downgrade

» Inability to align revenue and expenses, leading to weakened operations with thinner cash flow and debt service coverage

» Material decline in liquidity

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Key indicators

Exhibit 2
Hamline University, MN

	2018	2019	2020	2021	2022	Median: Baa Rated Private Universities
Total FTE Enrollment	3,055	2,992	2,737	2,565	2,372	2,868
Operating Revenue ($000)	80,724	89,908	83,944	73,482	77,826	98,061
Annual Change in Operating Revenue (%)	0.3	11.4	-6.6	-12.5	5.9	-1.2
Total Cash & Investments ($000)	96,439	99,778	105,854	138,131	120,842	213,996
Total Debt ($000)	45,901	44,124	42,166	42,395	42,747	80,369
Total Cash & Investments to Total Adjusted Debt (x)	1.9	2.0	2.2	3.0	2.8	2.6
Total Cash & Investments to Operating Expenses (x)	1.2	1.2	1.3	2.0	1.6	2.0
Monthly Days Cash on Hand (x)	114	108	107	360	172	355
EBIDA Margin (%)	12.8	20.3	13.2	13.6	12.6	14.8
Total Debt to EBIDA (x)	4.4	2.4	3.8	4.2	4.3	5.4
Annual Debt Service Coverage (x)	2.5	4.8	2.8	2.6	2.8	2.5

Source: Moody's Investors Service

Profile

The stable outlook reflects Moody's expectations that Hamline will continue to make budget adjustments as necessary to confront ongoing enrollment and net tuition revenue headwinds, generating sufficient debt service coverage. It also incorporates moderating enrollment losses and no material weakening of liquidity through fiscal 2023.

Detailed credit considerations

Market profile: significant regional competition pressures enrollment; Twin Cities location a differentiator

Hamline serves as a key player in the Minnesota higher education market with its fair brand, but enrollment will remain pressured due to heightened regional competition. As of fall 2022, the university enrolled 2,372 full-time equivalent students, down 7.5% since fall 2021 and down 22% since fall 2018. Like many institutions dealing enrollment challenges, Hamline keeps a close pulse on its student market and adjusts its offerings to meet the market need. This includes scaling back some education graduate programs, restructuring undergraduate programs, and developing a new internship program for students. Over the next few years, and as part of the university's strategic plan, the university aims to improve its 75% retention rate. Matriculation has improved slightly post-pandemic, and though some larger classes are graduating, the university expects a stabilization of enrollment in the coming years.

Hamline will remain a tuition dependent university and is a key credit challenge given recent enrollment trends. Historically, tuition and fees account for around 75% of overall operating revenue. The university's enrollment declines limit tuition and fees growth opportunities, though auxiliaries have increased again after declining during the pandemic.

Operating performance: history of stable operating performance, with some softening expected

Hamline's history of prudent expense management and stable operating performance will continue. Throughout steady revenue declines, the university has successfully managed expenses and ensured stable operating performance. Operating revenue and expenses have declined 4% and 5%, respectively, since fiscal 2018, evidencing management's ability to align the budget through a challenging operating environment. Less favorably, the net tuition revenue and fees have declined 15% since fiscal 2018 and reflects the aforementioned enrollment challenges at the university.

Some softening of operations is expected in fiscal 2023 as the university manages without federal pandemic aid and manages through further enrollment decline. However, management expects fiscal 2023 performance to be mostly in line with fiscal 2022 as savings from lower compensation expenditures will offset some of revenue declines. Fundraising has been modest, with three-year average annual gift revenue of about $9 million in fiscal 2022, down from pandemic highs but still improved from pre-pandemic levels and helps mitigate tuition revenue decline.

Wealth and liquidity: growth in overall wealth, but still weaker than peers

If management can continue to effectively manage the budget, the university will continue to modestly grow its financial reserves. Total cash and investments grew 25% since fiscal 2018, and while largely driven by fiscal 2021 investment returns, is also a testament to well managed fiscal operations. As of fiscal 2022, $121 million cushioned expenses a solid 1.6x, an improvement over 1.2x coverage in fiscal 2018. The university is on track to exceed its goal for a comprehensive giving campaign dedicated to provide funding for academic programs and scholarships.

Liquidity

Hamline's liquidity position is expected to remain stable through at least fiscal 2023. Fiscal 2022 monthly liquidity of $33 million translated into 172 monthly days cash on hand. This is weaker than peers, but a solid improvement from fiscal 2018, with growth in unrestricted monthly liquidity of 45%.

Leverage: declining debt burden with fixed rate structure

Hamline's leverage will remain low relative to financial reserves, with fiscal 2022 total cash and investments covering total adjusted debt by a healthy 2.8x. At this time, the university has no future debt plans and a modest utility infrastructure project will be funded using reserves unrelated to any debt issuance. However, age of plant is high at 26 years, evidencing an elevated amount of deferred maintenance and potential need for additional capital investment. Capital spending averaged about 1x annual depreciation expense over the last five years.

Legal security

All of Hamline's debt is an unsecured general obligation of the university. The Series 2017B bonds have a Reserve Account funded to maximum annual debt service at the date of closing. Hamline covenants to charge tuition, fees, rentals and other legally available charges which will be sufficient to result in a debt service coverage ratio of at least 110% each fiscal year. If coverage is less than 110%, within 60 days of the notice of non-compliance Hamline must engage a consultant to achieve 110% coverage within 90 days following engagement. The university is not considered in default if it engages a consultant as required, is using reasonable efforts to implement the recommendations, and debt service coverage is not less than 100% for two consecutive fiscal years.

Hamline can incur no Funded Debt (as defined in the documents) with a maturity greater than two years unless average debt service coverage is at least 110% for the two most recent fiscal years and the liquidity ratio of the most recent fiscal year end is not less than 50%. Hamline is permitted to incur debt for refunding or refinancing debt that does not increase MADS or for capital projects for which it has secured funds on hand or written pledges of at least 80% of the project costs. As of fiscal 2022, Hamline met 190% of its debt service coverage covenant and of its liquidity coverage is 283%.

Unrated Series 2021 MHEFA note has the same debt service covenant as the Series 2017B bonds. In addition, there is a liquidity covenant to maintain at least $15 million of eligible cash and investments and cannot borrow additional debt without permission of US Bank consent except for equipment finance debt of less than $500 thousand in aggregate.

Debt structure

All of Hamline's debt is fixed rate with regular amortization. The university currently has Series 2017B revenue bonds outstanding and a Series 2021 MHEFA note (non-rated).

Debt-related derivatives

None

Pensions and OPEB

The university has low exposure to post-retirement benefits with its participation in a defined contribution retirement plan. In fiscal year 2022, contributions were $1.6 million, just 2% of operating expenses. For employees who retired before June 30, 2008, the university contributes to post-employment health benefits, the outstanding liability for which is $839 thousand. This is declining each year and there were no contributions made in fiscal 2022.

ESG considerations

Hamline University, MN's ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 3
ESG Credit Impact Score

CIS-4
Highly Negative

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

Hamline University's ESG Credit Impact Score is highly negative (**CIS-4**) with material social risk factors having an outsized impact on the university's credit quality. The university faces a very challenging student market, reflected in declining enrollment and net tuition revenue over multiple years.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-5
Very Highly Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental

Hamline's exposure to environmental risks is low-to-neutral (**E-2**) with low-to-neutral scores across all categories. The university's location in St. Paul, MN exposes it to potential water stress and rising temperatures risks, but both are manageable.

Social

Hamline's highly negative exposure to social risks (**S-5**) is primarily driven by demographic and societal trends. Like most of the sector, Hamline serves as a social good, providing educational opportunities to a high proportion of first generation and Pell-eligible students and ranks well for economic mobility. However, Hamline's overall enrollment and net tuition revenue have declined materially over multiple years, driven by low state population growth trends and market, a risk due to the university's typically 75% reliance on student generated revenues. A generally declining yield on admitted students and retention rates below the majority of other Minnesota private colleges point to customer relations risks. These are partially mitigated by moderate student loan balances relative to earnings after graduation, with a comparatively low student default rate. The university favorably has relatively good donor engagement, providing some additional resources in a time of operating stress.

Governance

Hamline's exposure to governance risks is neutral-to-low (**G-2**) across nearly all categories. Concerted cost containment efforts have resulted in continued positive operating performance over multiple years despite significant earned revenue growth challenges, reflecting solid financial strategy and solid management credibility. Management credibility remains sound, but softening of operating performance due to enrollment pressures could pressure this subfactor score. Like a majority of the sector, the large composition of the board, including alumni and key donors, introduces moderately negative board structure risk.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The Higher Education rating 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 brand and strategic positioning, operating environment, and financial strategy on a qualitative basis, as described in the methodology.

For Hamline University, the difference between the scorecard-indicated outcome and the assigned rating is primarily driven by ongoing heightened enrollment pressures and a constrained ability to grow student charges.

Exhibit 5

Hamline University

Scorecard Factors and Sub-factors		Value	Score
Factor 1:	**Scale (15%)**		
	Adjusted Operating Revenue (USD Million)	78	Baa
Factor 2:	**Market Profile (20%)**		
	Brand and Strategic Positioning	Ba	Ba
	Operating Environment	A	A
Factor 3:	**Operating Performance (10%)**		
	EBIDA Margin	13%	A
Factor 4:	**Financial Resources and Liquidity (25%)**		
	Total Cash and Investments (USD Million)	121	Baa
	Total Cash and Investments to Operating Expenses	1.6	A
Factor 5:	**Leverage and coverage (20%)**		
	Total Cash and Investments to Total Adjusted Debt	2.8	A
	Annual Debt Service Coverage	2.8	A
Factor 6:	**Financial Policy and Strategy (10%)**		
	Financial Policy and Strategy	Baa	Baa
	Scorecard-Indicated Outcome		Baa1
	Assigned Rating		Baa3

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.

Source: Moody's Investors Service

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