

MOODY'S

RATINGS

MHEFA 2024 – Moody's Ratings
April 2024

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The background is a solid dark blue color. It features several large, overlapping, wavy patterns made of thin, light blue lines. These patterns resemble stylized waves or a complex grid that has been distorted into a fluid, undulating shape. The lines are most dense in the upper left and lower right corners, creating a sense of depth and movement.

1. Introduction

Moody's higher education contacts



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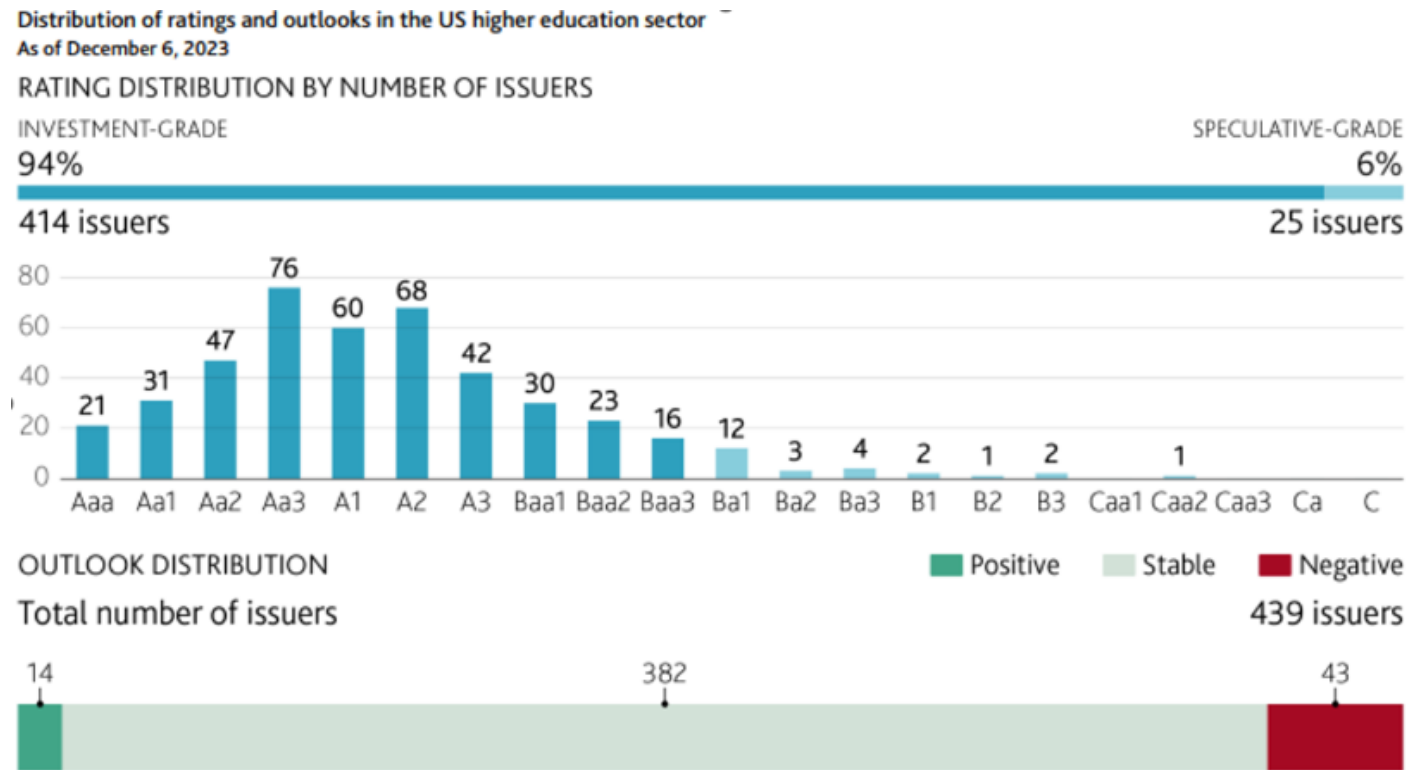
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The background is a solid dark blue color. It features two large, abstract, wavy patterns made of thin, light blue lines. One pattern is on the left side, and another is on the right side, both appearing to flow and ripple across the page.

2. Higher education outlook

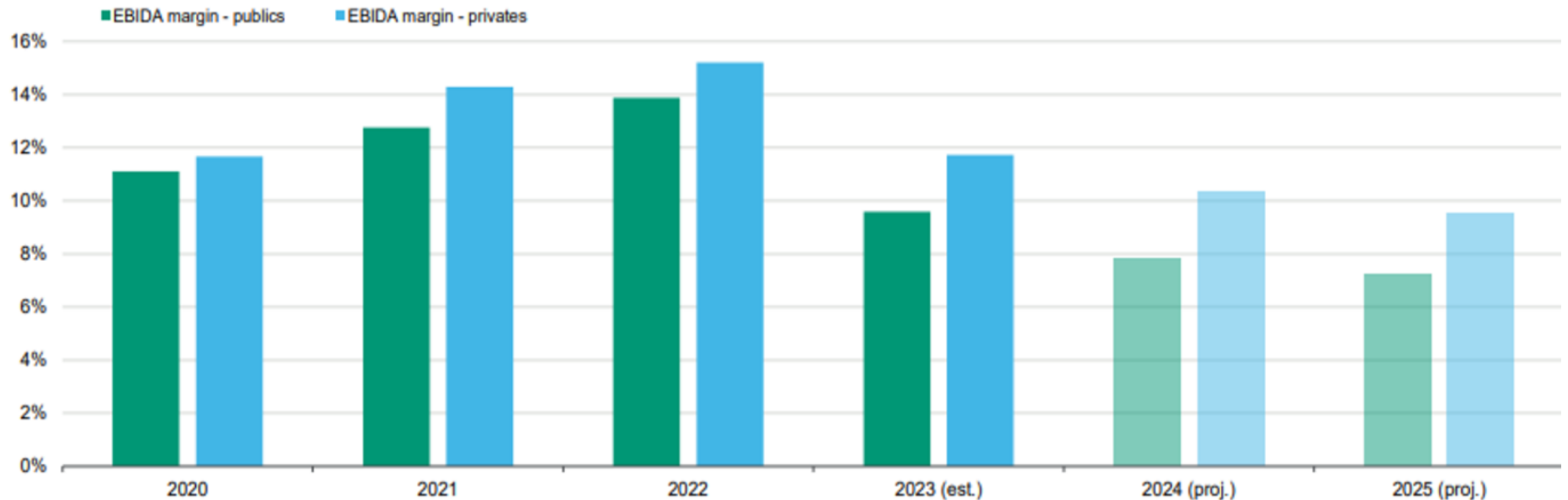
Higher education remains a highly rated sector

- Moody's rates the financially-strongest but pressures building for over a decade
- Strong getting stronger, weak weaker
- Roughly 20% thriving, 50-60% managing with differing degrees of success, 20-30% struggling



Source: Moody's Ratings

Moderating expense growth will stabilize operating margins toward the end of the outlook period



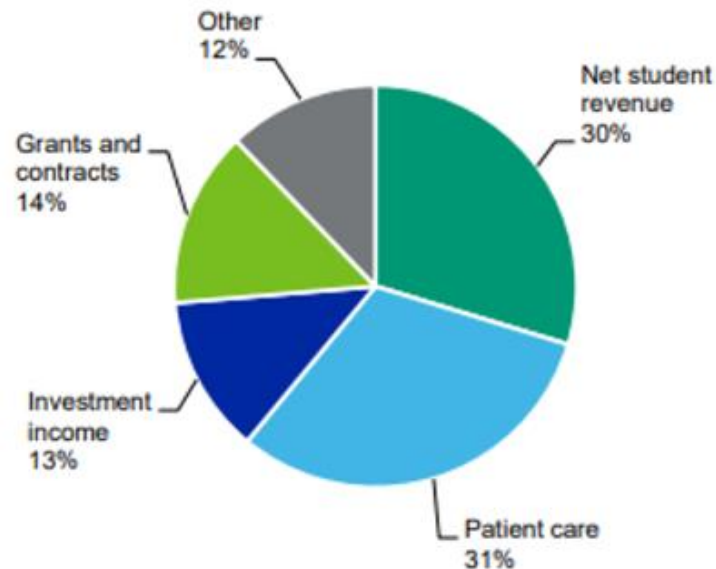
X-axis represents fiscal years ending June 30

Source: Moody's Ratings

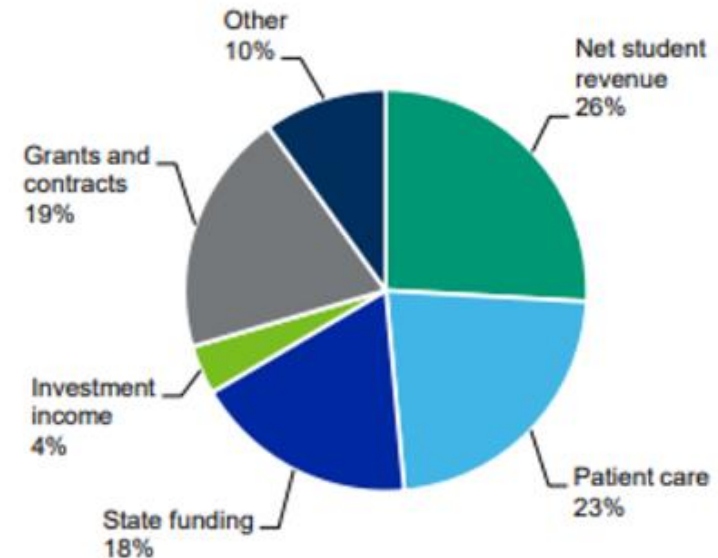
Revenue streams are diverse, though patient care revenue is outsized relative to small proportion of universities with AMC's

Patient care revenue represents about a third of operating revenue at private universities...

Fiscal 2022 private university revenue sources

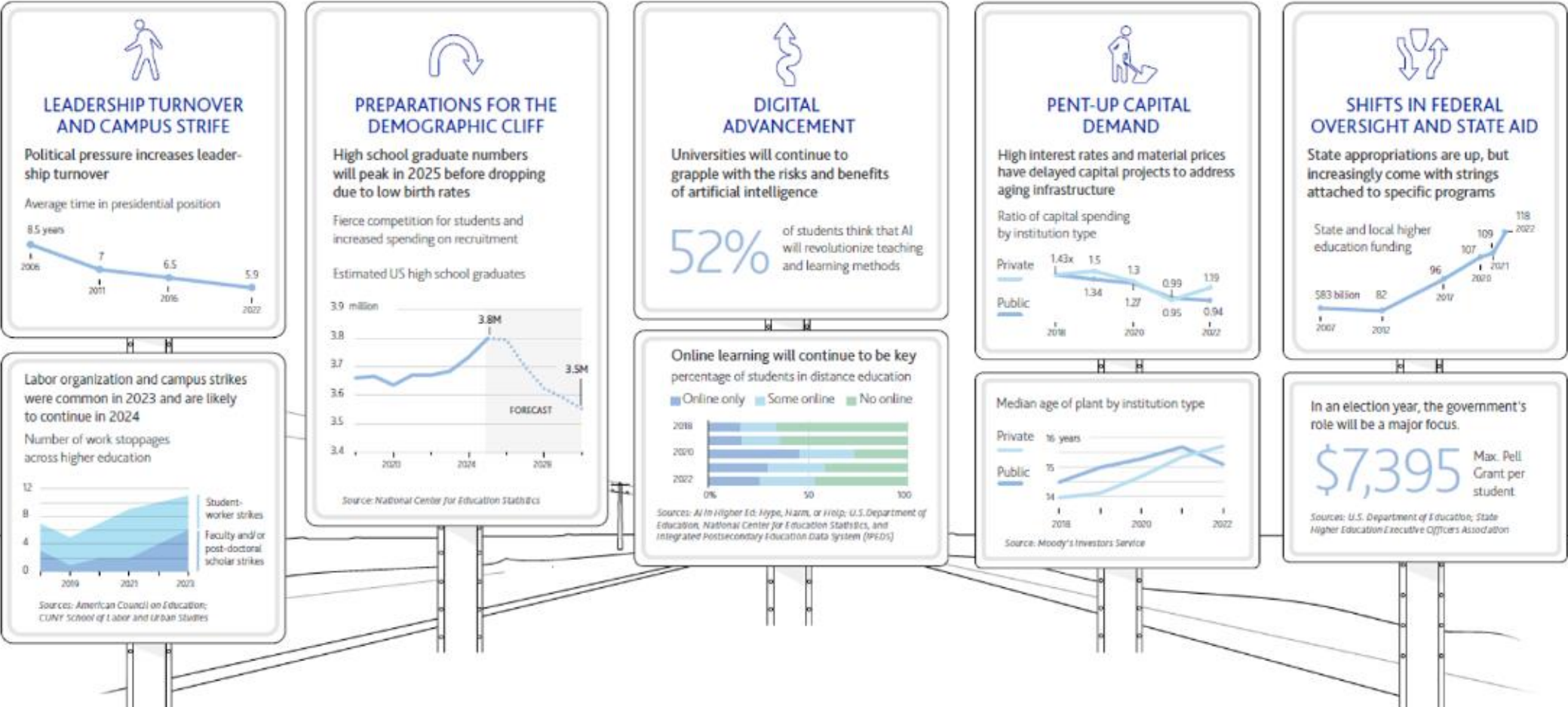


...and about a quarter at public institutions
Fiscal 2022 public university revenue sources



Source: Moody's Ratings

Uneven road ahead: signs of disruption and transformation in US higher education

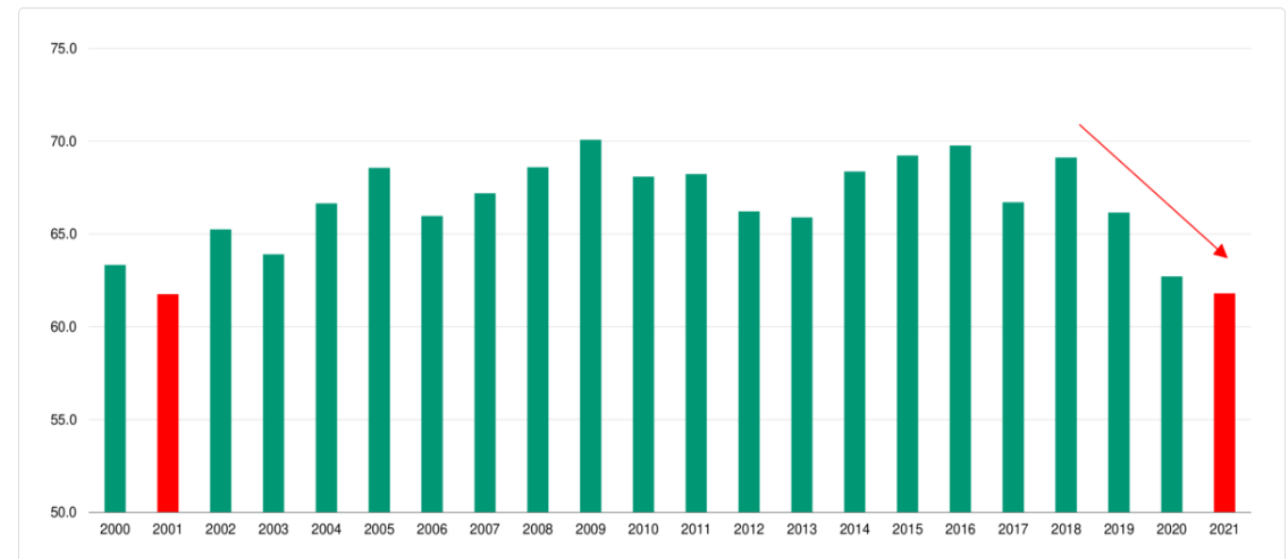


Challenging demographic and societal trends impact enrollment predictability

- Declining percentage of high school graduates attending college
- Expected decline in high school graduates following 2025-2026 peak
- Shifting consumer preferences toward STEM focused fields
- State and regional demographics critically important for colleges with a local draw
- Colleges have become very aggressive in recruiting nationally
- Public universities extending in-state pricing to neighboring states
- Most students still study close to home

The college-going rate reached a 20-year low in the fall of 2021

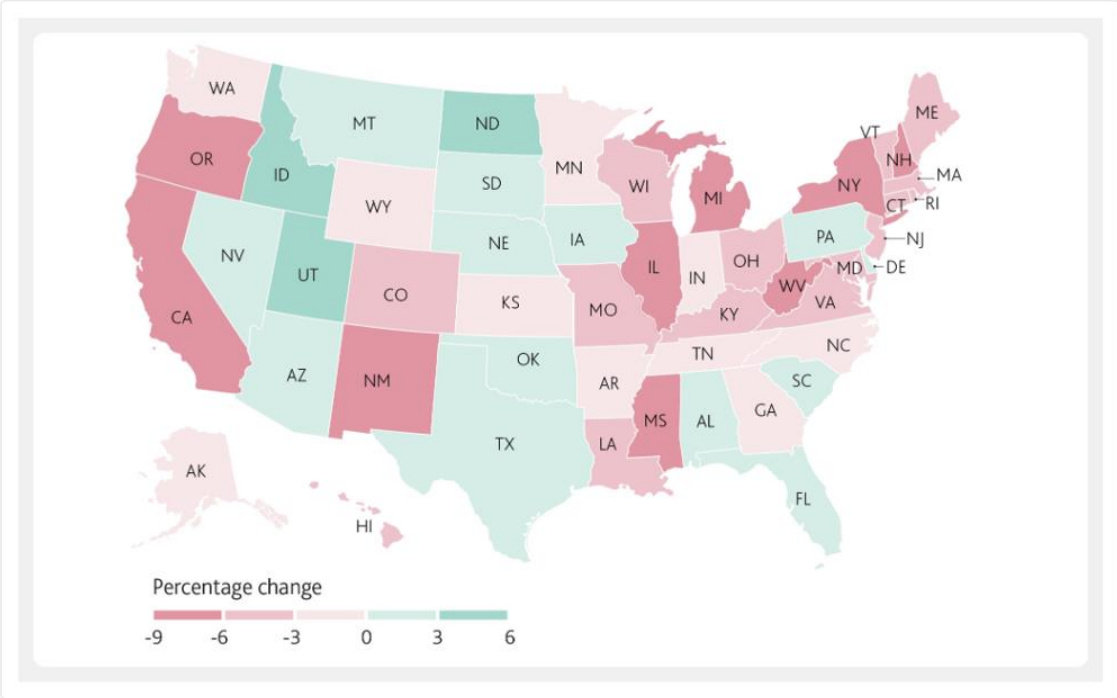
Percentage of high school graduates ages 16 to 24 enrolled in colleges and universities



Source: U.S. Bureau of Labor Statistics, College Enrollment and Work Activity of Recent High School and College Graduates Summary, April 2022; Moody's Investors Service

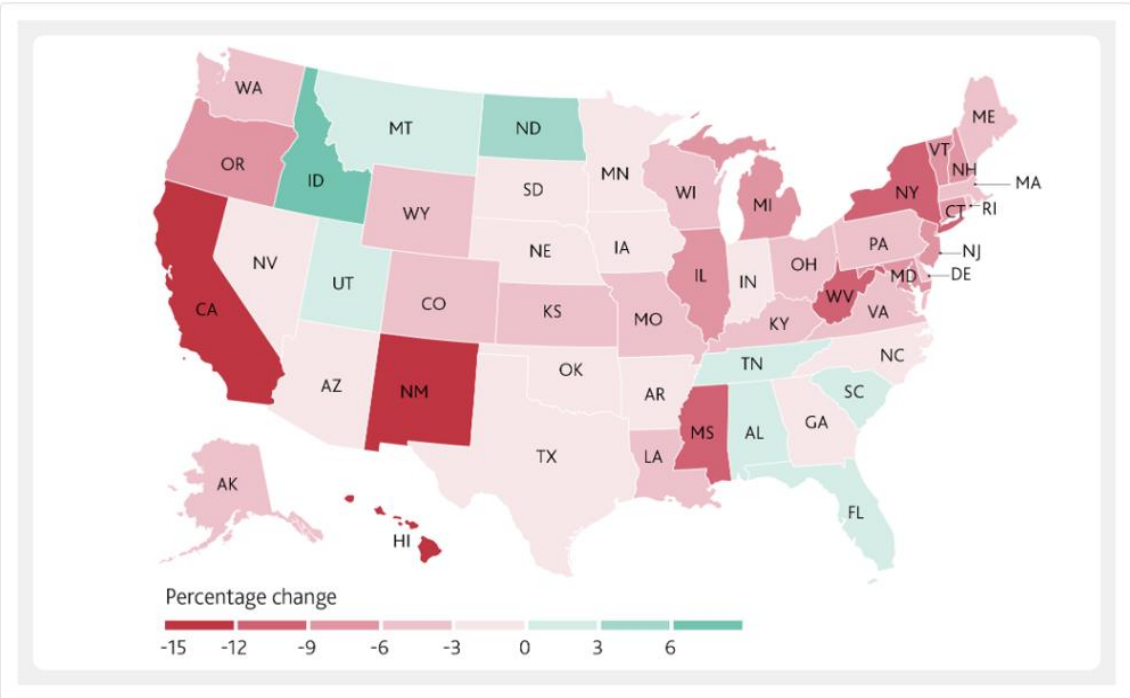
K-12 enrollment has recently varied widely by state and is projected to decline in most states

Change in enrollment by state, fall 2017 to fall 2022



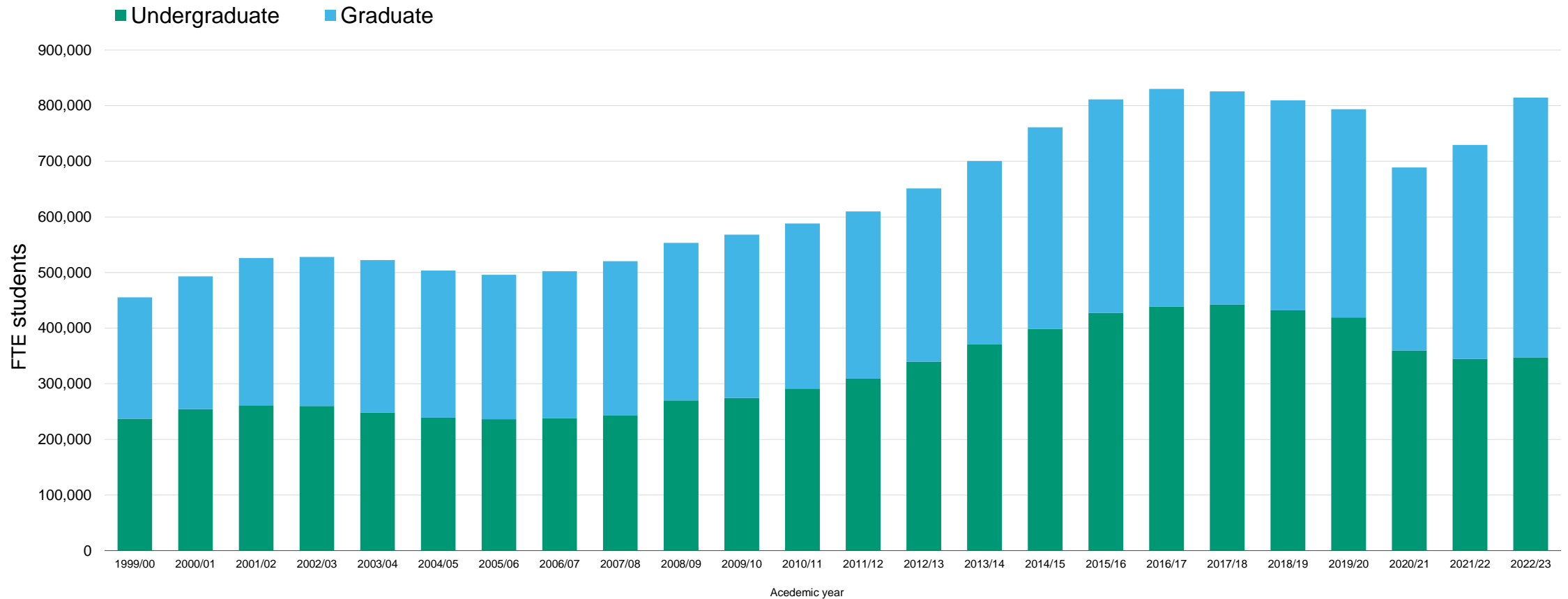
Fall 2022 figures are estimated. Data includes enrollment in traditional public schools, charter schools and cyber schools.
Sources: National Center for Education Statistics and Moody's Investors Service
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Change in enrollment by state, fall 2023 to fall 2031



Data includes enrollment in traditional public schools, charter schools, and cyber schools.
Sources: National Center for Education Statistics and Moody's Investors Service
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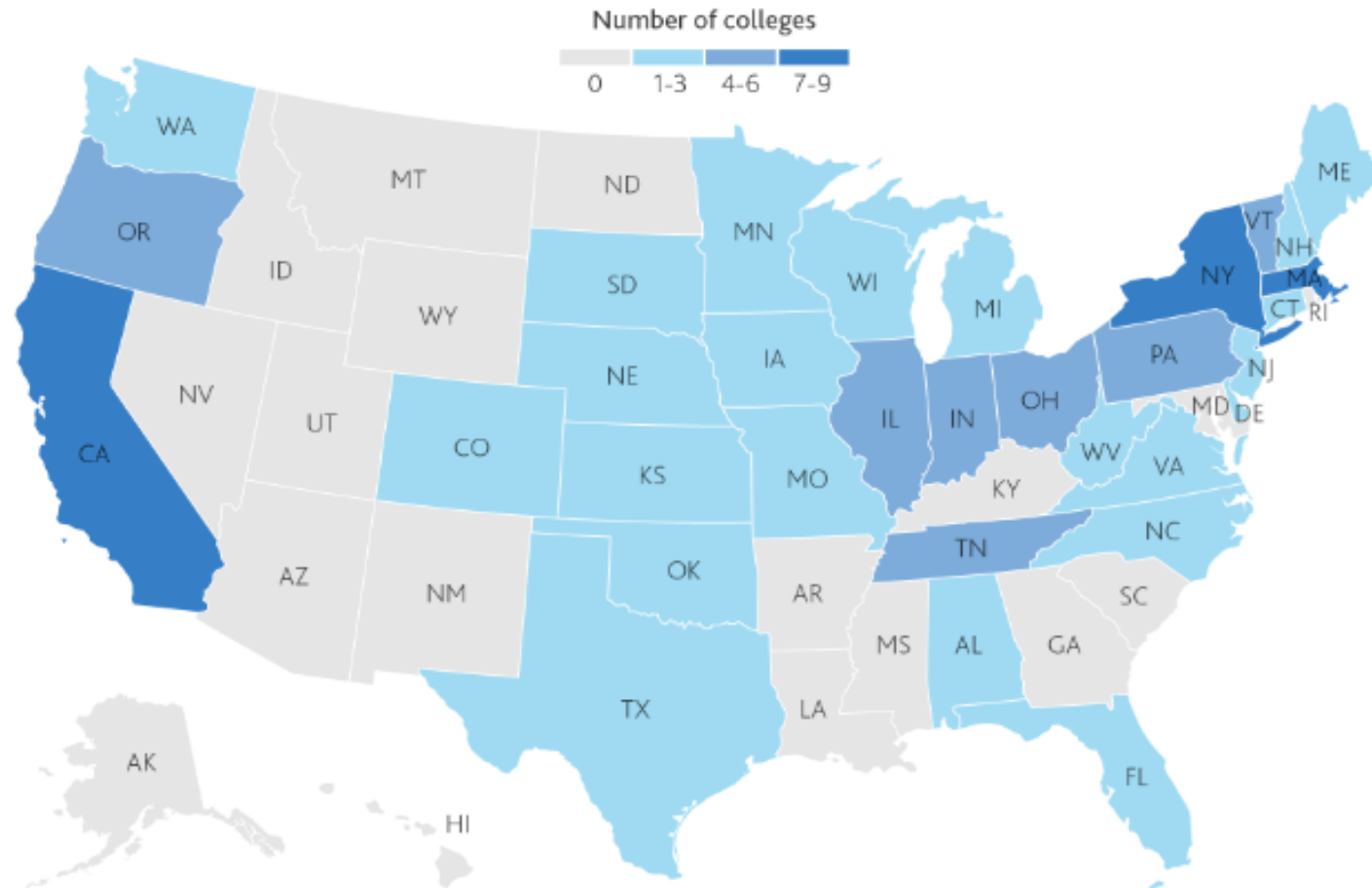
International enrollment rebounding near pre-pandemic levels



Source: Moody's Ratings; Institute of International Education

Rising pace of closures and mergers highlights sector pressures

Colleges and universities that have closed or merged, or announced plans to, since 2016

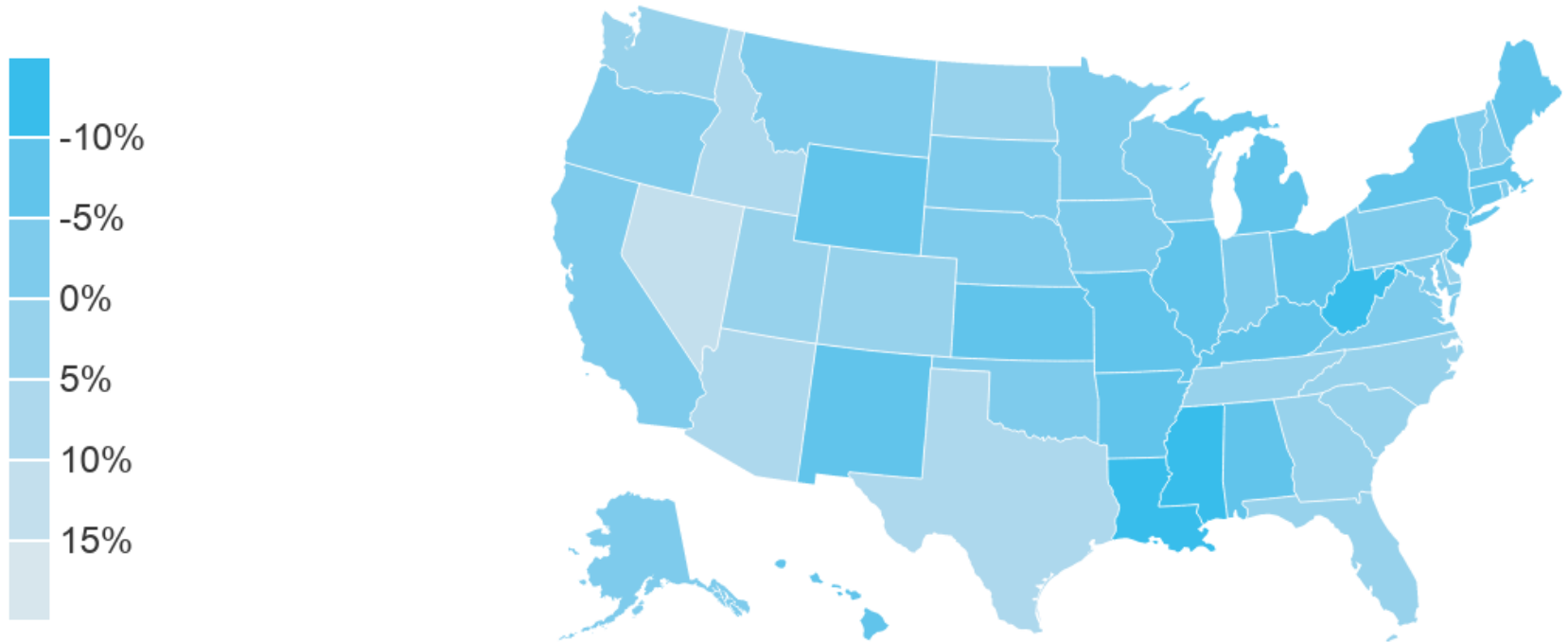


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3. Minnesota and peers

Decline forecasted for high school aged population

% Change in 15-19 year old population, 2022-2032



Source: Moody's

Forecast for Minnesota population growth is slow

Population growth forecast is stronger in South and West



Indicator	2023	2024	2025	2026	2027	2028
Population	5,738	5,767	5,792	5,815	5,836	5,856
% Change	0.4%	0.5%	0.4%	0.4%	0.4%	0.3%

Source: Moody's

Small private colleges facing larger enrollment declines and expense growth

Institution	Total FTE Enrollment	3-Yr Change in Enrollment	Net Tuition Per Student	Net Student Charges per Student	Average 4-Yr Tuition	Tuition Discount %	Educational Expense Per Student	3-Yr Change Op Rev	3-Yr Change in Op Expense	Monthly Days Cash on Hand	3-Yr Avg EBIDA Margin	Debt to EBIDA	3-Yr Avg DSC
Minnesota State Colleges and Universities, MN	97,351	-5.7%	8,776	10,571	42,284	27.9%	18,797	1.6%	6.2%	217	8.9	3.3	3.4
Small Private Colleges - MN - Median	1,836	-10.2%	18,547	29,815	119,260	55.2%	33,709	2.9%	9.4%	259	11.6	4.6	2.3
State University of New York (SUNY) System, NY	188,511	-1.40%	10,679	13,204	52,816	34.4%	39,091	12.5%	11.2%	123	14.8	6.2	2.3
Small Private Colleges - NY - Median	1,810	-7.70%	16,884	26,326	105,304	42.6%	31,228	-4.4%	13.7%	64	11.7	3.6	2.6
Pennsylvania State University System, PA	85,117	0.10%	22,597	28,992	115,968	13.4%	32,255	17.1%	22.4%	315	14.7	3.1	7.4
Small Private Colleges - PA - Median	1,873	-7.83%	22,601	31,185	124,740	56.0%	34,054	-1.7%	8.4%	368	13.6	6.7	2.2

Source: Moody's Ratings

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4. The rating process

What's a Moody's credit rating?

- A forward-looking opinion of the relative risk of financial obligations
- We rate securities “through the economic cycle,” or with a **long-term focus**
- Issuer ratings are assigned to colleges and universities, and then individual ratings assigned to specific securities (usually revenue bonds for higher education)
- We provide credit ratings, research, tools & analysis



Moody's long-term rating scale

Global Long-Term Rating Scale

Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.*

Moody's rating process: new sales



- Step 1: Assignment of the lead analyst upon notification of the sale.
- Step 2: Selection of a methodology based on the security of the debt.
- Step 3: Analysis of sale-related documents; legal information; audited financial data; debt and pension information; operating budgets; and capital improvement plans
- Step 4: Discussions between the Moody's analyst(s) and the issuer.
- Step 5: Moody's rating committee determines the rating outcome.
- Step 6: The lead analyst communicates the rating outcome to the issuer and, after the issuer's review of the draft report, publishes the rating and the credit opinion report.

*After the rating is assigned, we continually monitor the credit.

The Moody's review process

Topics/metrics we focus on



Long-term enrollment strategy, including recent trends and projections



Operating performance, including recent performance and current year expectations



Future capital plans, including dollar amounts, timelines, and funding sources



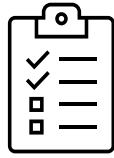
Financial resources, including philanthropic support and planned use of reserves



Academic program updates, including discontinued and new programs

The Moody's review process

What we typically receive



- **Current FY budget/operations**, including comparison to prior year budget/operations
- **Multi-year financial model/projections**, if available
- **Expenses detail**, including types of expense cuts and magnitude of savings
- **Enrollment projections**



While we look at the past to understand long-term trends, future projections are critical for our analysis and committee discussion.

AI presents opportunities for sector

Academic integrity and privacy risks balanced by opportunities for innovation and efficiency

EXHIBIT 1

Many university leaders and students believe generative AI will change higher education landscape



Source: AI in Higher Ed: Hype, Harm, or Help (Anthology White Paper)

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