

## ABC University

## Full Rating Report

## Ratings

Issuer Default Rating A

## New Issue

Series 2018 Revenue Bonds A

## Outstanding Debt

Revenue Bonds A

## Rating Outlook

Stable

## New Issue Details

**Sale Date:** The week of Dec. xx via negotiation.**Series:** \$xx,xxx,xxx Revenue Bonds, Series 2018.**Purpose:** To fund xx.**Security:** The bonds are an unsecured general obligation of the university, payable from legally available revenues.

**Analytical Conclusion:** The opening paragraph will be the high-level analytical takeaway summarizing the rationale for the rating in a few sentences. *The Issuer Default Rating (IDR) of 'A' reflects Fitch Ratings' assessment of ABC University's midrange revenue defensibility and operating risk through normal economic cycles as well as Fitch's expectations that ABC University will maintain net leverage metrics consistent with the 'A' rating level relative to Fitch's rating case stress. ABC's student revenue base exhibits competitive demand characteristics and a moderate level of price sensitivity supplemented by draws from endowment Fitch believes are sustainable. Fitch expects sufficient cost management, yielding adequate cash flow margins and elevated capital expenditure requirements in the near term. ABC's stronger financial and leverage metrics support an expectation of stability at the 'A' rating level through Fitch's forward look.*

## Key Rating Drivers

**Revenue Defensibility:** Fitch's assessment of an institution's revenue defensibility is the first key rating driver presented. It highlights revenue and demand characteristics, including student-driven, other operating and endowment or foundation revenues. The assessment includes a determination of expected revenue trajectory and control. *The university's demand will continue to support sound revenue growth, supplemented by draws from the endowment that Fitch considers sustainable. Competitive demand characteristics, including acceptance and matriculation rates, demonstrate the university's solid position in the region...*

**Operating Risk:** The second key rating driver summarized Fitch's assessment of the institution's risk. This entails an institution's operating cost flexibility, including revenue and expense growth trends, and capital expenditure requirements against expected funding sources over time. *Fitch expects ABC University's sufficient cost management to continue producing adequate cash flow margins. Capital needs are moderate although the university has an elevated capital plan for the next three years as it updates on-campus housing and other student-oriented facilities. Outlays are expected to be sourced from cash flow as well as philanthropy...*

**Financial Profile:** Fitch's assessment of the obligor's financial and leverage profile through the cycle will be the third key rating driver presented. Metrics are used to evaluate the institution's liquidity profile and leverage in the context of its overall risk profile. These metrics are evaluated on both an historical and forward-looking basis, which considers an individual institution's overall financial flexibility to withstand a stress scenario over a five year horizon. *The University's financial profile is robust. Liquidity is solid with healthy and consistent available funds to total expenses, and strong annual debt service coverage. ABC's available funds levels continue to grow, adding to their financial strength and flexibility. ABC's financial profile is expected to remain steady through the cycle...*

**Asymmetric Additional Risk Considerations:** Other factors such as debt structure, governance, and legal and regulatory framework are considered when assigning a rating.

## Analysts

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## Issuer Rating History

Rating	Action	Outlook/ Watch	Date
A	Assigned	Stable	xx/xx/xx

These risk factors are not scaled and only weaker characteristics affect final ratings. *Fitch views ABC University's material exposure to unhedged floating-rate interest as an asymmetric risk that ultimately constrains the rating in the 'A' category given the risk of interest rate fluctuations...*

## Rating Sensitivities

**Risk of Rating Transition:** Fitch will evaluate a university's flexibility through a stress scenario to assess the institution's overall risk profile on a forward-looking and through-the-cycle basis rather than a single point in time. The rating case scenario will reveal shifts that should be consistent with a stable rating through the stress of a normal economic cycle. Fitch will continue to identify factors that could lead to rating transition in the context of these forward-looking expectations expressed in the key rating factor assessments above. *Fitch's base case reflects ABC's steady revenue growth and adequate margins, with some flexibility against elevated expected capital outlays. Sufficient flexibility and steady leverage levels through the rating case support the current 'A' rating. The rating remains sensitive to...*

## Credit Profile

This section provides a summary of the credit's university type (e.g. private, public), location and size, type of degrees offered (bachelors, masters, doctoral), unique program offerings, or special designations. This section will also note any strategies that are expected to change the credit's identity or profile in the near future (i.e. addition of substantial online curriculum, material new programs of study, or consolidation with other institutions). *ABC University was founded in XXXX and draws students from within its region with total enrollment of x, which has grown at a moderate pace in recent years. The university has announced the roll-out of an online master's program, which will add x% FTE enrollment without stressing capacity of the on-campus housing facilities...*

## Revenue Defensibility

This section of the report will provide readers in-depth analysis supporting Fitch's key rating factor assessment for revenue defensibility. Analysis of enrollment trends, demand indicators, market reach and demographic characteristics, strength of state appropriation support (public institutions), relative pricing power, the magnitude and sustainability of endowment draw, and relative strength of other material revenues all support Fitch's assessment. Broadly, the intrinsic characteristics of public institutions often support higher revenue defensibility characteristics as compared to private institutions. See [Exposure Draft: U.S. Public Finance College and University Rating Criteria](#), page 5.

## Operating Risk

This section of the report will provide in-depth analysis supporting Fitch's key rating factor assessment for operating risk. Fitch will consider operating cost flexibility and capital expenditure requirements as part of this assessment. Fitch's analysis of operating cost flexibility considers key operating expenses, their volatility over time, and the timing of outlays to cover them. Key expenditures for the sector include faculty, staff and student salaries and benefits, depreciation of property plant and equipment, fundraising, and interest on debt. Fitch's analysis of capital expenditure requirements considers the flexibility of capital spending, urgency of capital needs, and the expected level of donor and state support for future capital projects based on historical performance. See [Exposure Draft: U.S. Public Finance College and University Rating Criteria](#) page 9.

## Related Criteria

[Exposure Draft: U.S. Public Finance College and University Rating Criteria \(November 2018\)](#)

## Financial Profile

This section of the report will provide in-depth analysis supporting Fitch's key rating factor assessment for financial profiles through the cycle. Having evaluated its revenue defensibility and operating risk profile, Fitch considers the institution's financial flexibility through a forward-looking stress scenario intended to assess its relative capacity to repay debt and other liabilities, connecting the institution's overall risk profile with its leverage and liquidity profile.

The Fitch Analytical Sensitivity Tool (FAST) will be used to establish a base case, which reflects Fitch's expectations for performance in the current macroeconomic environment, and a rating case, which considers potential performance under stress through which the rating is anticipated to be stable. Whereas the base case serves as a starting point for further scenario analysis, the rating case analysis considers potential performance under a common stress scenario which presents a plausible change in market value of an investment portfolio over the course of an economic or market cycle. See [Exposure Draft: U.S. Public Finance College and University Rating Criteria](#), page 11, and the [Fitch Analytical Sensitivity Tool for U.S. Higher Education](#).

## Asymmetric Additional Risk Considerations

This section of the report will provide in-depth analysis supporting Fitch's assessment of asymmetric risk additive considerations. Pursuant to the criteria, Fitch will consider an issuer's characteristics such as: debt structure and contingent liability exposures; the strength and stability of the leadership and governance teams; the legal or contractual framework; and the quality of information provided to Fitch. These risk factors are not scaled and only weaker characteristics impact the final rating. See [Exposure Draft: U.S. Public Finance College and University Rating Criteria](#), page 18.

## Demand Summary

(Fall Semester of Fiscal Years Ended June 30)

	2015	2016	2017	2018
<b>Headcount</b>				
Undergraduate Enrollment – Full-Time	3,175	3,032	3,148	3,224
Undergraduate Enrollment – Part-Time	772	620	673	680
<b>Total Undergraduate Enrollment</b>	<b>3,947</b>	<b>3,652</b>	<b>3,821</b>	<b>3,904</b>
Graduate – Full-Time	1,555	1,570	1,618	1,697
<b>Total Graduate</b>	<b>1,555</b>	<b>1,570</b>	<b>1,618</b>	<b>1,697</b>
Total Transfer	173	175	158	190
Other	8	18	13	2
<b>Total Headcount Enrollment</b>	<b>5,683</b>	<b>5,415</b>	<b>5,610</b>	<b>5,793</b>
Total Undergraduate/Total Headcount Enrollment (%)	69	67	68	67
<b>Full-Time Equivalent (FTE)</b>				
Total FTE Undergraduate Enrollment	3,692	3,447	3,605	3,649
Total FTE Graduate Enrollment	1,205	1,338	1,393	1,411
<b>Total FTE Enrollment</b>	<b>4,897</b>	<b>4,785</b>	<b>4,998</b>	<b>5,060</b>
<b>Admissions</b>				
Freshman Applications	5,997	5,782	6,704	6,743
Freshman Admissions	2,191	2,127	2,530	2,645
Acceptance Rate (%)	36.5	36.8	37.7	39.2
Freshman Matriculants	920	948	985	997
Matriculation Rate (%)	42.0	44.6	38.9	37.7

Sources: Fitch Ratings, ABC University.

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**Demand Summary**

(Fall Semester of Fiscal Years Ended June 30)

	2015	2016	2017	2018
<b>Residency and Retention</b>				
In-State Undergraduate Student (%)	36	34	35	36
Out-of-State Undergraduate Student (%)	64	66	65	64
Freshmen Headcount Residing on Campus (%)	85	87	84	86
Total Headcount Residing on Campus (%)	62	61	63	63
Freshmen to Sophomore Year Retention Rate (%)	88	89	91	90
Six-Year Graduation Rate (%)	67	66	66	65
<b>Student Test Scores</b>				
<b>Average SAT</b>				
Freshman	1266	1285	1263	1298
State Average	1014	1011	1008	1062
National Average	1010	1006	1002	1060
<b>Average ACT</b>				
Freshman	27	27	29	29
State Average	23	22	22	23
National Average	21	21	22	21

Sources: Fitch Ratings, ABC University.

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## U.S. Public Finance

## FAST U.S. HIGHER EDUCATION - FITCH ANALYTICAL STRESS TEST - SCENARIO ANALYSIS

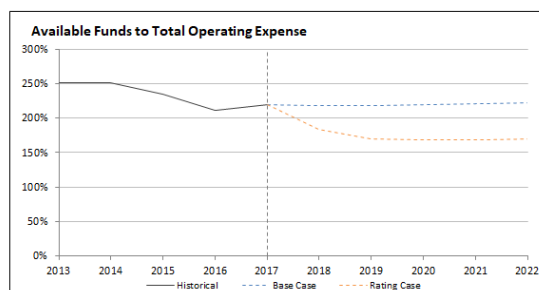
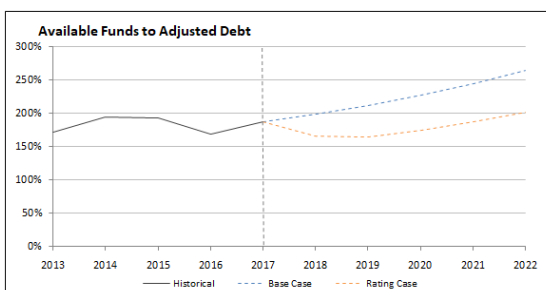
ABC University



### Scenario Analysis

This tab highlights how an issuer's financial profile can change through an economic/market cycle. The scenarios depicted below incorporate certain placeholder assumptions about issuer behavior in the outyears, and are presented for general informational purposes only. Analysts may adjust certain assumptions, as well as the values shown below in the yellow fields, and therefore the presentation below should only be viewed only as a starting point in our analysis, as opposed to the final scenario used for rating purposes. Scenario estimates should not be construed as forecasts. Source: Fitch Ratings, Federal Reserve Bank of St. Louis (FRED), FactSet/JDC.

V1.2.0



Scenario Assumptions	Base and Rating Case Subject to Adjustment for Rating Purposes											
	Base Case Assumptions					Rating Case Assumptions						
	Year 1	Year 2	Year 3	Year 4	Year 5	Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Assumption
GDP Growth	2.0%	2.0%	2.0%	2.0%	2.0%		-1.5%	0.5%	2.0%	2.0%	2.0%	
Portfolio Sensitivity Estimates	5.3%	5.3%	5.3%	5.3%	5.3%	Default	-11.3%	-1.9%	5.3%	5.3%	5.3%	Default
Revenue Assumption (% Change)	3.6%	3.6%	3.6%	3.6%	3.6%	5-Year CAGR	3.6%	3.6%	3.6%	3.6%	3.6%	Equal to Base Case
Expense Assumption (% Change)	3.4%	3.4%	3.4%	3.4%	3.4%	5-Year CAGR	3.4%	3.4%	3.4%	3.4%	3.4%	Equal to Base Case
Difference in Growth Rates	0.2%	0.2%	0.2%	0.2%	0.2%		0.2%	0.2%	0.2%	0.2%	0.2%	
Assumed Endowment Released for Expend (%)	4.5%	4.5%	4.5%	4.5%	4.5%	3-Year Avg Rate	4.5%	4.5%	4.5%	4.5%	4.5%	Equal to Base Case

WARNING: Outlined cells below indicate default values or formulas have been overwritten - reopen spreadsheet to refresh cells.

	2013-2017					Base Case					Rating Case				
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
<b>Balance Sheet</b>															
1 Available Funds (AF)	309,191	329,248	317,351	289,338	310,404	318,722	328,439	339,735	352,678	367,395	267,143	254,802	261,896	270,233	280,043
2 Restricted Bond Funds					0	0	0	0	0	0	0	0	0	0	0
3 Total Long Term Debt	180,247	170,144	164,654	171,319	166,625	161,071	155,517	149,963	144,408	138,854	161,071	155,517	149,963	144,408	138,854
4 Less: Scheduled Amortization						5,554	5,554	5,554	5,554	5,554	5,554	5,554	5,554	5,554	5,554
5 Less: Principal Refunding						0	0	0	0	0	0	0	0	0	0
6 Plus: Debt Issuance - Restricted						0	0	0	0	0	0	0	0	0	0
7 Plus: Debt Issuance - Unrestricted						0	0	0	0	0	0	0	0	0	0
8 Capitalized Operating Leases	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Fitch-Adjusted Unfunded Pension Liability	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Total Adjusted Debt	180,247	170,144	164,654	171,319	166,625	161,071	155,517	149,963	144,408	138,854	161,071	155,517	149,963	144,408	138,854

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