New Issue: Moody's assigns A1 rating to Idaho State University’s $28.7 million of Series 2012 General Revenue Refunding Bonds and affirms A1 rating on outstanding revenue bonds; outlook is stable

Global Credit Research - 07 Jun 2012

University will have approximately $52.9 million of pro-forma rated debt outstanding, including current offering

IDAHO STATE UNIVERSITY, ID
Public Colleges & Universities
ID

Moody's Rating

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<th>ISSUE</th>
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<td>General Revenue Refunding Bonds, Series 2012</td>
<td>A1</td>
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<td>Sale Amount</td>
<td>$28,680,000</td>
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<td>06/21/12</td>
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<td>Rating Description</td>
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Moody's Outlook STA

Opinion

NEW YORK, June 07, 2012 --Moody's Investors Service has assigned an A1 rating to Idaho State University's ("ISU" or the "university") $28.7 million of General Revenue Refunding Bonds, Series 2012. The amount of the refunding is subject to change depending on market conditions. At this time, we have also affirmed the A1 ratings of the university's parity debt, as detailed under the "Rated Debt" section of this report. The rating outlook is stable.

SUMMARY RATING RATIONALE

The A1 rating reflects the university's consistent operating performance, healthy balance sheet with expendable financial resources providing over one times coverage of pro-forma debt, and solid coverage of pledged revenues to debt service. These credit strengths are counterbalanced by continued state appropriation funding cuts for the State of Idaho, as well as ISU's competitive student market environment and softening enrollment.

STRENGTHS

* Strong operating performance with fiscal year (FY) 2011 operating cash flow margin of 17.7%, providing 4.9 times coverage of debt service.

* Adequate financial resource cushion relative to debt, with 29% growth in expendable resources to $79.2 million in FY 2011 from FY 2010, providing 1.1 times coverage of pro-forma debt.

* Healthy unrestricted monthly liquidity of approximately $79 million providing 60 days cash on hand as of FY 2011 and 100% fixed-rate debt structure.

CHALLENGES

* Reliance on state funding with appropriations comprising 38% of revenue. Grants and contracts comprise 15% of revenues, with a majority from federal and state sources.

* Highly competitive student market in Idaho with multiple public universities in the surrounding area competing for
students.

*Softening student demand with a slight decline in full-time equivalent (FTE) enrollment in fall 2011, coupled with declining matriculation (the number of students accepted that enroll).

DETAILED CREDIT DISCUSSION

USE OF BOND PROCEEDS: Bond proceeds are expected to be used to refinance all or portions of the Series 1998, Series 2003, Series 2004A, and Series 2004B bonds, and to pay costs of issuance. With the current issuance the university is expected to generate a net present value debt service savings of approximately $2.7 million.

LEGAL SECURITY: The Series 2012 Bonds are secured by Pledged Revenues, which include: (i) Tuition and Student Facilities Fee/Facilities; (ii) Revenues of the Housing System; (iii) other revenues of other university enterprises or sources of funds as shall be designated by the Board; (iv) any investment income derived from the revenue fund and the bond fund; and (v) proceeds from the sale of a series of Bonds and money and investment earnings thereon. In addition, the university has covenanted that revenues available for debt service will equal 110% of annual debt service on a year by year basis. The Series 1998 bonds (to be refunded with current issuance) have a specific pledge of student facilities fee revenue.

Additional dedicated fees, including non-resident tuition charges (in addition to base tuition), graduate fees, activity and campus technology fees are not part of pledged revenues. As of 3/31/12, the university was in compliance with all covenant requirements on the outstanding bonds.

As of FY 2011, the university's pledged revenues totaled $52.7 million, providing 7.8 times coverage of total debt service requirements ($6.7 million). For FY 12, the university estimates pledged revenues of $57.3 million will provide 8.6 times coverage of debt service.

DEBT STRUCTURE: The Series 2012 bonds will be tax-exempt, fixed-rate debt with an 11-year amortization schedule. Post issuance of the Series 2012 bonds, ISU will have estimated total pro-forma outstanding debt totaling $64.8 million. The 2012 bonds are expected to mature in April of 2023.

DEBT-RELATED INTEREST RATE DERIVATIVES: None

MARKET POSITION: REGIONAL PUBLIC UNIVERSITY LOCATED IN A COMPETITIVE MARKET

Moody's expects that ISU will maintain its stable market position as a relatively large regional public university. In fall 2011, the university served total FTE enrollment of 10,827 students, a modest decline from prior year and below levels seen in 2009. Undergraduate enrollment contributed to the decline, with a .39% drop from prior year to 9,204 FTE. Matriculation declined in fall 2011 with 60.2% of students accepted, actually enrolling at the university, compared to 63.3% in 2010. Despite the decline in enrollment and matriculation, there was a 5% upick in the percent of matriculants from outside Idaho, as well as a 52% increase in international enrollment (490 students in fall 2011, 322 in 2010). In addition to building out international enrollment, the institution is also focused on expanding its core programs in the health professions and Science, Technology, Engineering, and Mathematics (STEM) disciplines as a strategy to help retain students. In the fall of 2011, the university expanded its distance learning program and online course offerings through the electronic ISU (eISU) initiative. Management reports an 11.4% increase in total eISU credit hours for the spring 2012 semester compared to fall 2011. Student headcount for the same period also increased by 10.3% (3,140 total headcount for spring 2012 compared to 2,848 for fall 2011). On a total headcount basis, ISU is projecting enrollment of 12,960 students for the fall of 2012 (a 2.9% increase from the prior year of 12,587).

The university competes with many four-year public universities in Idaho, Montana, Wyoming, Utah, and Nevada, in addition to multiple community colleges in the area which students have turned to as a less costly alternative for the first two years of study. ISU has taken steps to increase retention by funding additional internship programs for undergraduate and graduate students and placing additional emphasis on academic advisement. Furthermore, the university expects the recent Carnegie Research classification will help boost research presence and opportunity, as well as aid in recruiting high-quality faculty, staff and students.

The university implemented tuition and fee increases of 7% over the last fiscal year and intends to increase tuition by an additional 4.7% for fall 2013. Management believes the university has pricing flexibility and is moderately priced relative to peer institutions. While the university has some pricing power based on peer comparison, increased sensitivity to high priced universities at the national level could be a longer-term challenge.
OPERATING PERFORMANCE: HEALTHY OPERATING PERFORMANCE EXPECTED TO CONTINUE DESPITE REDUCTIONS IN STATE APPROPRIATIONS

Moody's expects the university will continue to generate positive operating performance and maintain strong debt service coverage. As of FY 2011, the university's three-year average operating margin and operating cash flow margin were solid at 7.8% and 14.9%, respectively, as calculated by Moody's. Operating performance since FY 2009 has been buffered by vigilant expense control and lower payroll costs (due to hiring delays and selected vacancies), as well as rationalization of faculty and staff salary increases. Total expenses have declined to $193.0 million from $199.5 million (a 3.3% decline) from FY 2009 to FY 2011.

Legislatively approved state appropriations represented approximately 38% (the university's largest revenue source) of the university's total revenues in FY 2011. For the third consecutive year, the university has budgeted for a decline in state aid and expects to receive $59.3 million for FY 12 compared to $61.2 million in FY 2011 (a 3.1% retracement). Despite the 21.2% decline in state funding over the past three years, the university is projecting an increase of approximately 7.9% for FY 2013. Tuition increases have helped to partially offset the reduction in appropriations, as management reports an increase in net tuition revenue of 10.8% as of March 31, 2012, compared to the same time last year.


The university has low leverage relative to operations with a debt to operating revenue ratio of 0.35 times. The proposed refunding will decrease the university's operating leverage to 0.30 times which is lower than the operating leverage for similarly rated regional public universities.

BALANCE SHEET POSITION: ADEQUATE FINANCIAL RESOURCE CUSHION RELATIVE TO DEBT; STRONG LIQUIDITY

After the proposed bond issuance, the university will have a total of $64.8 million of pro-forma direct debt. Expendable financial resources grew by over 29% in FY 2011 to over $79.2 million (from $61.6 million in FY 2010) due to retained operating surpluses and improved investment performance from prior years (19.4% endowment investment return in FY 2011, down 2.1% as of 3/31/12). As of FY 2011, expendable financial resources provided 1.05 times coverage of pro-forma debt.

Growth in cash and investments has helped ISU to bolster its liquidity position to $78.9 million of monthly liquidity (equal to 160 days cash on hand) as of fiscal year end 2011 from $64.6 million (131 days cash on hand) at FY 2010. (Monthly liquidity is a measure of the amount of unrestricted cash and investments that can be liquidated and spent within 30 days)

In addition to the university's rated debt, ISU's affiliated foundation currently has $5.9 million of outstanding debt and the university has $4.0 million of outstanding notes payable. The university does not expect to issue additional bonds during the next 24 to 36 months.

GOVERNANCE/MANAGEMENT: PRESIDENT FOCUSED ON LEADERSHIP, OPPORTUNITY, AND COMMUNITY ENGAGEMENT

ISU employs many of Moody's best practices for governance and management including the use of detailed multi-year financial plans and budgets that are integrated with the university's strategic, capital and financial plans.

Outlook

The stable outlook is based on Moody's expectation that ISU will maintain a stable student market position, continued budgeting practices in light of state funding environment, and that balance sheet and operating leverage will remain manageable.

WHAT COULD MAKE THE RATING GO UP
Stable to growing enrollment trends; extended growth in financial resource base

WHAT COULD MAKE THE RATING GO DOWN

Deterioration of operating cash flow or reduction of state appropriations without the ability to offset cuts; weakened student demand; decline in financial resources supporting debt and operations

KEY INDICATORS (FY 2011 data, fall 2011 enrollment)

Full Time Equivalent (FTE) Enrollment: 10,827 students

Primary Selectivity: 93.3 %

Primary Matriculation: 60.2 %

Net tuition per student: $6,380

Educational Expenses per Student: $14,118

Total Cash and Investments: $76.2 million

Total Pro-Forma Direct Debt: $64.8 million

Expendable Financial Resources to Pro-forma Debt: 1.05 times

Expendable Financial Resources to Operations: 0.31 times

Monthly Days Cash on Hand: 160 days

Operating Revenue: $215.3 million

Operating Cash Flow Margin: 17.7 %

Three-Year Average Debt Service Coverage: 4.36 times

Reliance on Student Charges Revenue (% of Moody's Adjusted Operating Revenue): 37.9 %

Reliance on Government Appropriations (% of Moody's Adjusted Operating Revenue): 38.4 %

RATED DEBT:

General Revenue Refunding Bonds, Series 2012: rated A1

General Revenue Bonds, Series 2007: rated A1

General Revenue Bonds, Series 2006 (Taxable): rated A1

General Revenue Bonds, Series 2004C: rated A1

Student Facilities fee Revenue, Series 1998: rated A1 (to be refunded with current issuance)

General Refunding and Improvement Revenue Bonds, Series 2003: rated A1 (to be refunded with current issuance)

General Revenue Bonds, 2004 A&B: rated A1 (to be refunded with current issuance)

General Revenue Bonds, 2004 C (Taxable): rated A1 (to be refunded with current issuance)

CONTACTS:

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Underwriter: Dick King, Director, Barclay's, 206-344-5838

 RATING METHODOLOGY
The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Michael Gusta
Lead Analyst
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